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MARKETING
METHODS AND POLICIES

BY

PAUL D. CONVERSE

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SECOND EDITION
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TO MY FATHER

The memory of whose long years of self-sacrificing devotion to the ideal of social justice has often been an inspiration to his son.

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MARKETING

Preface

IN THE preface to the first edition of this book, written in 1921, the author stated that he believed there was a need for a book covering the general field of marketing which would be useful to both the young man in business and the college student. The volume was prepared with this in mind, even though it was impossible to prepare it entirely from first-hand information. It has been used much more widely as a text book than the author had anticipated, especially by students in the schools of business administration. This revision was undertaken for two purposes, first, better to adapt the book for text uses, and second, to include some of the new information that has become available during the past three years.

With a view to adapting the book better to the needs of the teachers of marketing, a questionnaire was mailed to those using the book, asking for their criticisms. Several excellent suggestions were received. The most interesting thing about the answers to these questionnaires, however, was the great difference of opinion which they showed among teachers of marketing as to the proper content of the general course in marketing and as to how the material should be presented. It is apparent that the general course in marketing has not been standardized and that no one book can, at the present time, supply all that is desired by the different teachers.

The two following examples will illustrate some of the differences of opinion. Regarding the marketing of farm products, some thought that the general course should contain a good deal of material on this subject. Others felt that the marketing of farm products and the marketing of manufactured products were entirely different and should be kept separate both in courses and in texts. A few, however, agreed that the marketing of farm products is in principle the same as the marketing of any other class of products and that separate

treatment is unnecessary. A relatively large amount of the space in this volume is devoted to farm products, but with the exception of the chapter on the assembling process, the chapters are not specially labelled.

Some teachers thought that this book contained too little "theory" and too many detailed facts. Others reported that they liked the book because of the specific information and the absence of abstract theory. From the author's own teaching experience, he is convinced that it is necessary to give the elementary student of marketing considerable descriptive material in order that he will know how goods are marketed under the present economic system. Many of our students come direct from preparatory schools with little or no business experience, while the older students are generally familiar with only one aspect of business. To try to teach these students marketing policies, to teach them how to operate marketing enterprises, or to discuss with them ways of improving our marketing system before they have at least a meager knowledge of the operation of the present system, is useless.

The author is greatly indebted to Professor George Burton Hotchkiss, of New York University, for reading the revised manuscript and for many valuable criticisms.

To Mr. L. I. MacQueen, secretary of the Pittsburgh Association of Credit Men, he is indebted for helpful suggestions in the sections dealing with the financing of marketing enterprises.

Valuable criticisms were received from Professor John W. Jenkins, University of Georgia; Professor E. A. Kincaid, University of Virginia; Professor W. D. Moriarity, University of Washington; Professor H. H. Maynard, Washington State College; Professor H. B. Price, University of Minnesota; Professor Fred Jordan, University of Cincinnati; Professor H. E. Bice, Syracuse University; Professor John R. Riggleman, University of Southern California; Professor R. E. Curtis, Knox College, and others.

July, 1924. PAUL D. CONVERSE

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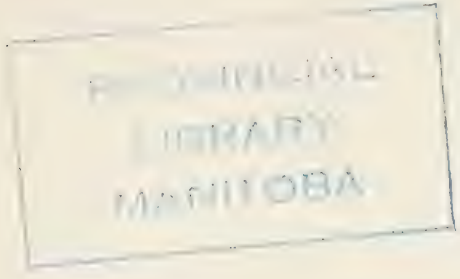
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Chapter I

MEANING AND IMPORTANCE OF MARKET DISTRIBUTION

The place of marketing in economics.—Economics, for the purpose of study, is divided into production, distribution, and consumption. Production consists in the creation of form, place, and time utilities. Form utilities comprise the various articles or services which we desire for consumption—coal, automobiles, bread, beefsteak, medical attention, grand opera, locomotives, or newspapers. By place utilities is meant the taking of these articles or services to the places where they are needed by the consumers. By time utilities is understood the supplying of these articles or services at the time they are needed or desired. The creation of place and time utilities is just as much a part of production as the making of form utilities. If the city man is to have bread, it is just as essential that the wheat be brought to the city and kept until he is hungry as it is that the wheat be grown by the farmer, ground into flour by the miller, and made into bread by the baker.

Marketing in a broad sense covers those business activities which have to do with the creation of place and time utilities. Marketing, to the economist, is then a part of production. The business man, however, speaks of marketing as distribution. By distribution, business men mean either the transportation of the goods from the point of production to the consumers, or the transportation and all the transactions involved in getting goods from the producers to the consumers.

In economics, distribution refers to the division of society's total product among the different factors of production—land, labor, and capital—and to the division of each factor's share among the individuals composing the factor. Disagreement over the division of wealth is the cause of a very large number of our strikes and industrial wars, and of a large part of our social unrest. In this book, however, distribution will be used in the business meaning.

The object of market distribution.—The object of both production and marketing is to supply human wants. People do not eat bread to give the farmer a market for his wheat, but wheat is grown because there is a demand for it from consumers. Steel is not made for fun but to fill a demand for tools, machinery, railroads, automobiles, and so forth. The object of all business is to give the consumers the goods and services they demand.

Wants are supplied by the raw materials of nature (the economist's land) made available by human and non-human agencies. Minerals are dug from the earth, the soil tilled, crops harvested, factories operated, goods transported, stored, and exchanged, and services performed by human beings assisted by natural agencies such as gravity, rain, or magnetism. Labor thus obtains from nature those things which go to satisfy human wants. The activities by which the raw materials of nature are obtained, changed in form, and made available to satisfy human wants go to make up business, provided the persons engaged in these activities are actuated by a hope of a profit. The savage who picks the wild fruits or berries for his own consumption, and the charitable organization which ministers to human wants without a profit are not ordinarily considered as being "in business." Business in a narrower sense consists in acquiring control of commodities or services, and their sale in the same or in a changed form with the expectation of making a profit. Profit, however, is the incentive and not the object of business. The object is to supply human wants.

Nature of human wants.—Human wants are indefinite in extent. There are not only the primary wants for food, shelter, and clothing, but secondary wants depending upon man's memory, imagination, and reason. These secondary wants are limited only by the mental powers of different individuals. In any but a very simple society, business is called into use to satisfy the great majority of wants. As human wants are unlimited, business is capable of indefinite expansion.

Marketing a part of business.—Business is divided into two parts: production (of form utilities); and market distribution or exchange. Manufacturers, miners and farmers have two problems to consider: first, the production of goods; and second, the sale of goods. Production deals with goods

until they are in the warehouse, tipple, or granary, and marketing deals with goods from this point until they have finally been placed in the hands of the consumer.

Little attention has been given to the efficiency of market distribution.—Much more attention has been given to the efficiency of production than to the efficiency of market distribution. Production has been studied for generations, thousands of labor-saving devices have been invented, and mechanical power has been applied in hundreds of ways to increase output. We have schools of engineering, mining, and agriculture. There are mechanical engineers, mining engineers, civil engineers and chemical engineers. Agriculture is now a science and dozens of colleges and hundreds of papers are instructing the farmers as to methods of increasing production or decreasing costs. Yet until comparatively recent years, little critical or serious attention has been given to a study of market distribution.

Many economists, as well as business men, have assumed that the distributing system which has developed under the existing conditions is the most efficient system that could be devised. It is not clear, however, why we should assume that the marketing system inherited from our fathers is any more efficient than the farming or manufacturing system inherited from them. It has been repeatedly proved that soil production can be increased by proper fertilization, plant breeding, crop rotation, and correct tillage; also that the cost of manufacturing can be reduced by a systematic plant layout, use of well-designed machinery, and the intelligent handling of labor. Many manufacturers and most farmers have had their time so occupied with problems of production that they have given little attention to problems of distribution, leaving that very largely to take care of itself.

Importance of market distribution.—F. W. Taylor, in his book on Shop Management, cites the case of two competing manufacturers of chemicals, who decided to consolidate their businesses. One of these men had been an expert on production and had been producing his goods 40 per cent cheaper than the other. The other man, however, was an expert on marketing and saved an equal amount in distributing his goods. After the consolidation they were able to realize both savings. This indicates that distribution is just as important as pro-

duction. Many persons have apparently assumed that distribution is relatively unimportant and need be given little attention. It has been stated that the pre-war factory cost of a typewriter was not over $20 while the other $80, paid by the consumer, went for marketing expense and profit. The author has heard the statement that the distributor got 95 per cent of the sale price of an enlarged portrait to cover his expenses and profit. Milk is a staple article and yet figures published by large distributors, who presumably have very efficient organizations, show that about half of what the consumer pays goes to the farmer and about half to cover the costs and profits of distribution. Figures gathered a few years ago in Wisconsin showed that the cost of marketing cheese was almost equal to the price paid the farmer for the milk. A study made by the Nebraska Experiment Station showed that the farmer received only 36 per cent of the price paid by the consumer for apples which had been stored three months and sold through the regular channels.

Distribution of the consumer's dollar.—The Joint Congressional Commission of Agricultural Inquiry published some very interesting figures showing the distribution of the consumer's dollar spent for typical articles.[1] A dollar spent by the consumer for bread is distributed as stated in the following analysis:

Average for 1913, 1916, and 1921

Farmer received for wheat	29.6¢
Transportation of wheat	2.6
Elevators' margin	2.1
Miller, for manufacturing of flour, net cost less receipts from by-products	0.6
Transportation of flour	3.2
Baker, cost of manufacturing bread	10.2
Baker, selling expense	15.7
Baker, overhead expense	9.8
Baker, profit	5.7
Retailer's expense	15.0
Retailer's profit	5.5
Consumer pays	100.0¢

A dollar spent by the consumer for oranges was distributed as follows in the 5-year period from 1913 to 1918:

[1] *House Document* No. 408, 67th Congress, first session, pages 208-225 of Part IV.

Orange grower received for fruit on the tree	39.8¢
Exchange's expense for harvesting, packing, and selling	9.0
Transportation	16.4
Wholesaler's margin	8.4
Retailer's margin	26.4
Consumer pays	100.0¢

For wheat, which undergoes two manufacturing processes, the farmer receives less than one-third of the price paid by the consumer. For oranges, which go through no manufacturing process and are handled largely by very efficient coöperative organizations but which are expensive to transport, the grower receives nearly two-fifths of the price paid by the consumer. It should be noted that in the case of the manufacture of flour, the sale of by-products—bran and middlings—almost pays for the cost of manufacturing the flour.

Figures for other typical products are shown in condensed form in the following tables:

Distribution of the "Consumer's Dollar" Spent for Typical Items of Food. Average for 1913, 1916, and 1921

Article	*Cornflakes*	*Rolled Oats*	*Fresh Beef*	*Bread*
Farmer received	22.1¢	22.3¢	85.7¢[1]	29.6¢
Transportation costs[2]	15.6	9.0	7.4	7.9
Manufacturing cost[3]	11.3	12.7	15.6[4]	10.8[5]
Selling expenses	36.8	37.3	19.5	40.5
Manufacturers' and dealers' profits	14.2	18.7	3.0	11.2
Consumer pays	100.0¢	100.0¢	100.0¢	100.0¢

1Shipper.
2Includes elevators for grains and feed for cattle.
3Includes taxes.
4Credit, less cost of by-products and losses.
5Less by-products sold by miller.

Distribution of the "Consumer's Dollar" Spent for Shoes and Men's Suits. Average for 1913, 1920, and 1921.

	Suits	*Shoes*
Raw materials	29.7¢	41.1¢
Manufacturing cost	21.0	17.2[1]
Manufacturer's overhead and selling expense	14.4	10.5
Manufacturer's profit	3.5	2.7
Retailer's expense	26.6	25.4
Retailer's profit	4.8	3.1
Consumer pays	100.0¢	100.0¢

1Includes taxes.

The Department of Agriculture has compiled some interesting figures showing the distribution of the consumer's dollar spent for cotton cloth.

Distribution of Consumer's Dollar Spent for Various Kinds of Cotton Cloth[1]

	Sheeting	*Gingham*	*Calico*	*Percale*
Farmer receives for raw cotton	22.7¢	16.4¢	20.7¢	21.3¢
Costs and profits of marketing raw cotton, manufacturing cloth, and selling it to jobbers	46.7	52.7	49.3	49.4
Costs and profits of jobbers and retailers.....	30.6	30.9	30.0	29.3
Consumer pays	100.0¢	100.0¢	100.0¢	100.0¢

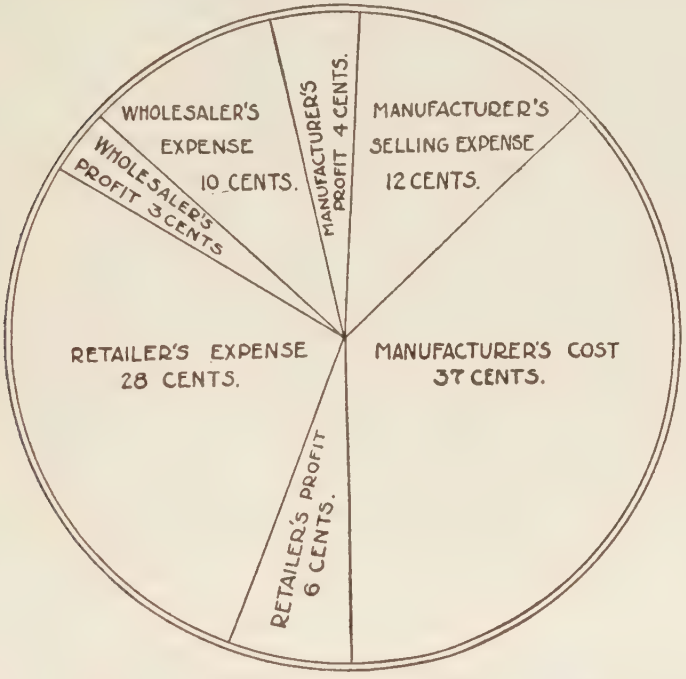
[1]Based on average prices for May, 1915; October, 1919; October, 1921; and March, 1923.

In the case of all foodstuffs listed, the selling cost was considerably larger than the manufacturing cost. In the case of cornflakes, bread, and rolled oats, the selling and transportation costs were considerably larger than the amount paid to the farmers and the manufacturing expenses combined. It must also be borne in mind that a part of the amount received by the farmer goes to pay his cost of selling and hauling to market.

In the case of suits and shoes it appears that selling expenses amounted to less than the raw material and manufacturing expenses, but it must be remembered that the cost of raw materials is made up in no small part of selling and transportation expenses. For example, wool is sold by the grower and ordinarily passes through the hands of one or more middlemen before reaching the woolen mill. After being made into cloth, it must be sold by the mill and perhaps is handled by one or more middlemen before reaching the clothing manufacturer. The leather and findings that go into shoes also ordinarily pass through several hands before reaching the shoe manufacturer.

It is not unusual for a retail dealer to double the price of an article, and even on staple lines the retailer often adds one-half of the cost to him. Thus an article costing the retailer $1.00 is sold for $1.50 or $2.00. The wholesaler's gross margin of profit on such an article is often 15 to 20 cents and the manufacturer's selling expense may be over 10 cents. Thus an article with a factory cost of $.75 costs the consumer $1.50 or $2.00. (It should also be remembered that a part of the factory cost is due to the marketing expenses of the raw materials.) Some articles are distributed more cheaply than this,

but many others have their price more than doubled between the producer and the consumer. Swift and Company publish figures showing the following distribution of the consumer's dollar: manufacturing costs 37 cents; manufacturer's selling


WHOLESALER'S EXPENSE 10 CENTS.
WHOLESALER'S PROFIT 3 CENTS
MANUFACTURER'S PROFIT 4 CENTS.
MANUFACTURER'S SELLING EXPENSE 12 CENTS.
RETAILER'S EXPENSE 28 CENTS.
MANUFACTURER'S COST 37 CENTS.
RETAILER'S PROFIT 6 CENTS.

Distribution of Consumer's Dollar (Swift & Co.'s Figures)

expense 12 cents; manufacturer's profit 4 cents; wholesaler's expense 10 cents; wholesaler's profit 3 cents; retailer's expenses 28 cents; retailer's profit 6 cents. These figures are said to be based on clothing, foodstuffs, and supplies made by forty factories and sold by both large and small dealers. On the basis of these figures, 37 per cent of the consumer's dollar goes to pay for raw materials and manufacturing expenses, 50 per cent to cover marketing expenses, and 13 per cent for profits. In spite of the fact that the expenses of market distribution are commonly equal to or greater than the factory or farm cost of an article, the emphasis has been placed on the cost of production. It would seem that as much thought, attention, and study should be devoted to the problem of marketing as to the problem of production.

Hoover's statement.—Herbert Hoover states that as a result of studies of the cost of distribution made by the Food Administration it was established that "the margin between our farmers and the wholesaler in commodities—other than in grain in some instances—are, even in normal times, the highest of any civilized state—fully twenty-five per cent higher than in most European countries." He gives as reasons for the expensiveness of distribution in the United States: the great distances between producing and consuming areas; the lack of public markets; the long chain of manufacturers, brokers, jobbers, and wholesalers through whose hands farm products pass; and "the increasing demand for expensive service by our consumers."[2]

More people engaged in production than in marketing.—In spite of this large marketing cost, only about one-sixth of the gainfully employed people in the United States are engaged in marketing. On the other hand, about three-fifths of the gainfully employed are engaged in production. The census figures for 1910 and 1920 are given in the following table.

Persons Engaged in Gainful Occupations in 1910 and 1920

Occupation	*Numbers*		*Percentages*	
	1910	1920	1910	1920
Agriculture, animal husbandry, and forestry	12,659,082	10,953,158	33.2	26.3
Extraction of minerals	965,169	1,090,223	2.5	2.6
Manufacturing and mechanical	10,658,657	12,818,524	27.9	30.8
Total engaged in production	24,282,908	24,861,905	63.6	59.7
Trade	3,614,670	4,242,979	9.5	10.2
Transportation	2,637,671	3,063,582	6.9	7.4
Total engaged in marketing	6,252,341	7,306,561	16.4	17.6
Clerical occupations	1,737,053	3,126,541	4.5	7.5
Professional, public, and domestic service	5,895,034	6,319,241	15.5	15.2
Total in gainful occupations	38,167,336	41,614,248	100.0	100.0

These figures show that of those gainfully employed, 16.4 per cent in 1910, and 17.6 per cent in 1920, were engaged in marketing. Contrasted with this, we see that in 1910, 63.6 per cent and in 1920, 59.7 per cent were engaged in production. Thus there are more than three times as many people in pro-

[2]Writing in *Saturday Evening Post*, April 10, 1920.

duction as in market distribution. The classification of occupations used by the census enumerators cannot, however, be taken as giving absolutely accurate figures for our purpose. No doubt the figures for production include men in the sales departments of mines, mills, and factories. Also a part of the time of most farmers is devoted to marketing. These facts are partly offset by the inclusion of bankers, undertakers, stenographers, accountants, and so forth, under the general head of "trade." Some of those engaged in clerical occupations should be credited to production and some to marketing. If all such adjustments were made, the figures would in all probability still show that more than two and one-half times as many people were engaged in production as in marketing. It is probable that those engaged in marketing received higher average wages, or incomes, than those engaged in production.

More attention being paid to marketing.—Many persons are now studying marketing and many of them are introducing cheaper methods of distribution. Witness the growth of the chain stores, which generally eliminate one middleman and have many economies of operation. Another example of cheapened distribution is to be found in the self-serve stores which claim to operate much more cheaply than the ordinary chain stores.

There are great opportunities in the field of market distribution. The man who reduces the cost of distribution and the price to the consumer is just as much the public benefactor as the man who invents some labor-saving machine or perfects some new industrial process and thereby lessens the cost of producing certain articles. The man who reduces the cost of distribution, however, is much surer of a financial reward than is the inventor of a new machine or an industrial process.

Questions—Chapter I

1. What is the nature of human wants? How does commerce help us to satisfy these wants? Does the satisfying of these wants make us happy?

2. Which has the most wants, the African savage, the oriental philosopher, the Middle Western farmer, or the New York millionaire? Which is the happiest? Why? Which is the least happy? Why? To what extent does each depend on commerce to satisfy his wants?

3. Which has the greater variety of goods, the laborer of today or the banker of the 18th century? Which is the happier?

4. Why are there so many middlemen today? How could the number be lessened? Would this be desirable?

5. Which is the most efficient at the present time, the methods of producing or marketing goods? Why?

6. Enumerate all the different marketing costs paid for by you when you buy a loaf of bakery bread at your local grocery store.

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Chapter II

MARKETING FUNCTIONS

In taking up the study of marketing, the student should have in mind the functions that are performed in the marketing process. The nine chief marketing functions are: selling, assembling, dividing, standardizing and grading, packing, transporting, storing, financing, and risk-taking.

Selling.—One of the chief functions of marketing, and one that accounts for a large part of the expense, is the making of sales. The hundreds of thousands of traveling salesmen and the thousands of brokers and sales agents are occupied almost entirely with the making of sales. There are over two million people engaged in retailing; they have to do primarily with selling, although a part of their time is devoted to the physical handling of goods—receiving, storing, and delivering. From a legal viewpoint, selling has to do with the terms of the sales contract and the transfer of title. Under present conditions, however, selling has to do largely with demand creation, that is, inducing people to purchase the goods offered by individual sellers. The methods used in inducing people to purchase are principally personal salesmanship, advertising, window and counter display of goods, and education of the consumers through publicity.

Is the salesman a producer?—The question is often asked whether the salesman is a producer or merely a necessary evil under the competitive system. Some economists list possession as a separate utility. If we recognize the creation of value by the transfer of title, then the salesman is certainly a producer, for his work is primarily to effect a change in the ownership of goods. The reasoning back of this position is the basic idea of commerce; namely, that both buyer and seller are benefited by a sale. If either the buyer or seller receives something of less value to him than that with which he parts, then the sale should not be made. The old idea of commerce, which prevailed for thousands of years, was that one party to a

trade must be benefited and that the other party must be cheated. The modern conception of commerce is entirely different—that each party to a trade receives something of greater value to him than that with which he parts—otherwise there would be no buying and selling and no business in the modern sense.

It is further argued that it is more economical to have traveling salesmen visit the buyers than to have the buyers leave their stores and visit the central markets. Furthermore, the frequent calls of salesmen permit the merchants to carry smaller stocks and use capital more efficiently.

The salesman as an educator.—The salesman is a producer in an entirely different way—as an educator. In America the traveling salesman carries the news as to styles from New York and Chicago to the small towns and villages throughout the country. He gets ideas as to merchandising in one town and passes them on to merchants in other towns, thus helping to increase the efficiency of the merchants. The retail salesman helps the consumers select goods suited to their needs. The salesman is also an educator in the introduction of new and better types of merchandise.

Assembling.—Many goods are produced in small units and it is necessary that they be assembled so that sufficiently large quantities can be obtained to be shipped and sold economically. Farm products, for instance, are produced in small quantities by different farmers. It is necessary that they be brought together in quantities large enough to fill a car in order to be transported economically. This is generally necessary in the case of eggs, cattle, tobacco, wool, cotton, and so forth. It is true that large growers often produce large enough quantities of grain, potatoes, cattle, or apples—to fill one or more cars. Even the large growers, however, often have less than car loads of certain products for sale. Herein lies the necessity for local buyers, country shippers, or coöperative marketing organizations among the farmers. The live-stock shipping associations exist primarily to perform the assembling function. Certain markets are sometimes referred to as assembling markets.

Goods must also be gathered together for sale in the terminal markets. This is true of goods collected for auctions or for any centralized markets where many buyers congregate.

Most dealers, both wholesale and retail, perform an assembling function in bringing together many different articles, made by different producers, for sale to the buyers. Assembling will be further discussed in the following chapter.

Dividing.—Goods produced or purchased in large quantities must be distributed in small lots to the buyers. The manufacturer must ship goods by the car, case, barrel, or dozen. The wholesale and retail dealers also subdivide goods and sell in smaller quantities than they purchase in. This is one of the important functions of many middlemen. One reason why customers cannot buy direct from the manufacturers is that they cannot buy in large enough quantities to make it worth while for the manufacturers to sell to them.

Standardizing and grading.—Standardization involves the fixing or adoption of rules to guide in producing or sorting commodities into groups of uniform kind, size, or quality. The actual dividing or sorting, in accordance with these rules, is known as grading. A standard carries the idea of permanence or stability so that a given grade will be of a known quality at all times. This does not mean that a standard once adopted should never change, for with discoveries, inventions, improvements in manufacturing processes and the quality of crops grown, standards should be changed. It does mean, however, that a product graded according to a standard should at any time have a definitely known quality. Standards may be based on chemical content, size, shape, specific gravity, strength, color, ripeness, sweetness, amount of moisture, or freedom from foreign matter. The quality of wool, for example, depends on diameter and length of fiber, shrinkage, and spinning qualities.

Grading.—Grading is necessary because goods are not produced in uniform quality. The same apple tree produces large and small apples, and perfectly shaped and knotty apples during the same season. The same field produces potatoes of many sizes and qualities. A factory nearly always has a certain number of "seconds" as well as goods of "extra" quality. Buyers prefer goods that are of uniform quality because goods that are so sorted and packed will sell for more than goods that are not properly graded. A farmer may have 200 bushels of apples. He will receive more for these apples in all likelihood, if he separates the varieties, divides each

variety according to size, and packs the imperfect apples separately, or discards them altogether, than if he tries to sell the 200 bushels as they come from the orchard. Buyers do not like to buy goods of uncertain or mixed quality and when a shipment is known to contain some poor goods the value of the whole is likely to be lessened. The buyer must protect himself by estimating the quantity of the desirable goods conservatively. Regrading and packing are expensive. Buyers often want only a certain grade of product. Cotton mills must have cotton with certain lengths of fiber for different purposes. Millers must carefully select their wheat with a view to producing the desired kind of flour. Dealers in the wealthier districts may want only the largest and most perfect apples, while dealers in the poorer sections may have a market for smaller or imperfect fruit. Users of steel often buy the steel under a guarantee as to its exact chemical analysis in order to get the quality desired for their needs. If the goods are not properly graded, the buyers must go to the expense of sorting and run the risk of loss in selling the part not needed. It is absolutely necessary that goods sold for future delivery be carefully graded according to definite standards. Future trading would be impossible without definitely established grades.

It is important that foods not only be graded but that they be graded according to definite and uniform standards. It is also desirable that the size of the packages used for marketing various foodstuffs be standardized. Many manufactured goods have been pretty well standardized. This is especially true of branded merchandise. The idea back of much advertising is to let the buyers know that the advertised brand insures a certain quality, which will always be found in the branded product. Some of the staple agricultural products, such as cotton and grain, are now graded according to uniform standards by experts licensed by the government. Many other farm products either are not graded at all or are graded according to different standards in different parts of the country. There is a need for better grading and packing of farm products. Much has been done in this connection in recent years but much more needs to be done.

Methods of grading.—Goods may be graded according to condition or quality of product, variety, size, size of container, and method of processing or packing.

As to condition or quality, goods may be graded according to amount of moisture, soundness, uniformity of size, color, shape, sweetness, and chemical analysis. The amount of moisture permissible in various grades of grain is carefully specified. Vegetables and fruits must be graded according to soundness, ripeness, and uniformity of size and shape. Color is important in grading many food products. Canned fruits are often graded according to sweetness or specific gravity of the syrup. Canned vegetables are commonly graded and sold as "standard," "extra standard," and "fancy." Poor quality goods are known as "sub-standard" or "off standard." Many products such as steel, fertilizers, and drugs are often graded according to chemical analysis.

As to variety, wheat is graded as spring, winter, durum, and so forth; apples as Kings, Baldwins, Bendavis, Greenings, and so forth; and canned salmon as sockeye, Alaska red, chinook, Alaska king, medium red, pink, chum, and steelhead.

Apples, potatoes, oranges, lemons, prunes, canned peas, and many other products are graded as to size. Apples are graded by passing them over holes of a certain diameter, as 2½ inches, and oranges and lemons as to the number in a box. Six sizes of peas are recognized by the canners and are graded by passing them over screens with different-sized meshes. Peas not so screened are sold as "ungraded" or "ungraded as to size."

In the sale of fruits and vegetables it is necessary to specify the size of the container, as 150-pound bag, bushel basket, and so forth. On this point the United States Department of Agriculture says:

"There are in common use at present about 40 sizes of cabbage crates, 20 styles of celery crates, 30 lettuce crates or boxes, 50 styles and sizes of hampers, 15 styles and sizes of round stave baskets, and marketing baskets varying in size from 1 to 24 quarts, whereas relatively few standard sizes would satisfy all demands of the trade. In many cases the 6-quart market basket, the 14-quart peach basket, the ⅞-bushel bean hamper, and the 5-peck lettuce hamper are confused with peck, half-bushel, bushel, and 1½-bushel baskets."[1]

The same conditions prevail with many other products. In canning fruits and vegetables the standard-size cans are Nos.

[1]Quoted in the *Journal of Commerce* of April 30, 1921.

1, 2, 2½, 3 and 10. There is, however, much lack of uniformity. There are three sizes of the No. 3 can. Condensed and evaporated milk is generally put in cans of sizes not listed above. Also baked beans, soup, and canned fish are often placed in cans of other sizes or shapes.

Goods may be graded according to the method of processing or packing. Steel is sold as bessemer or open hearth. Canned corn may be canned "Maine style." Cloth may be bleached or unbleached. Sardines are packed in olive oil, cotton-seed oil, mustard, or tomato sauce.

Advantages of grading.—Grading according to definite standards decreases marketing costs and often means higher prices to the producers and lower prices to the consumers. Standard products can be marketed more cheaply owing to a lessening of risk; an increase in the ease of financing the necessary transactions; a reduction in transportation and storage costs; a decrease in the work of demand creation; and a saving in the time of the buyers and sellers in making purchases and sales. Standardized goods have a wider market than non-standardized goods. They generally have an established and known price. Hence the owner of such goods can always find a buyer and he knows at least approximately what price he can expect. For this reason buyers will pay more for such goods than they will for non-standardized goods. In the case of standardized goods dealt in on organized exchanges, future price quotations are established. This further lessens risk on goods to be carried for long periods. Hedging, only possible with standardized goods, enables the owner to shift almost all risk of price changes to professional risk takers.[2]

Since standardized goods are of known qualities and prices, the owner desiring to borrow money on them may store them in public warehouses and deposit the warehouse receipts at the banks as collateral for loans. Banks often will loan almost the full market value of such goods. This enables the owners to carry their goods until they can obtain higher prices for them. Most eggs in cold storage are carried in this way from spring until the following fall and winter. Of late, many farmers' coöperative associations have been storing a large part of their members' standardized goods in order to feed the markets evenly and prevent glutting and low prices.

[2]See Chapter XI for a description of hedging.

Transportation and storage costs are lessened by grading. The inferior or unmarketable goods may be discarded so that no transportation or storing expenses are incurred on goods not wanted by the consumers. This applies especially to farm products. In so far as is practicable, such products should be graded on the farm, or at the local shipping station. With potatoes, for example, if the farmer sorts out the culls he will not have to haul them to market and can use them for feeding live stock. And most likely he will receive more for his marketable potatoes than for his entire crop if he sells it ungraded.

Goods of standard grade are easier to sell than goods of non-standard grade. Customers buy more freely and with greater assurance, less advertising is needed, and less time is taken by both seller and buyer.

Canned peas as an example.—Suppose that the standards for canned peas were made uniform, that the grade were printed on each can, and further that the housewives learned to buy by grade and not by label; what advantage would result? First, the housewife would know what she was getting when making a purchase and would not be dependent upon trying one brand after another, as at present, until she found one that suited her, repeating the process whenever the dealers were out of her brand. Second, the small canner would be enabled to get nearly as much for his product as his large competitor who spends money on advertising. This increased competition would tend to lower prices to the consumer and perhaps save a part of the money now spent for advertising and fancy labels. Third, it would prevent the dealer passing off a poor grade as a product of high quality. Fourth, it would save the time now taken by the grocer to explain the qualities under the different labels and so reduce the cost of retailing. The customer would ask for peas by grade as "No. 2 fancy," or "No. 4 standard" and no explanation would be needed.[3]

[3] *Testimony of a pea canner.*—A Wisconsin pea canner has the following to say on this subject—"Here we canners dump 13,000,000 cases of peas aggregating about $30,000,000 on the market for the public to consume without any definite method of grading, just leaving ourselves to the mercy of the wholesale grocer.—I would say that at least 90 per cent of canned peas and corn go to the consumer today without any special mark as to the grade. . . . I know of a number of cases where sub-standard peas and sub-standard corn changed their grade while in transit. . . . . A short time ago I noticed in St. Paul several cases of sub-standard corn. . . . This corn was sold

Manufacturers' standards.—This discussion of the standards of canned peas shows the two kinds of standards—individual and uniform. When the consumer asks for "No. 3 fancy early June peas," she is asking for peas graded according to a definite standard and one that is already fairly well known in the trade. She knows that such peas will be of approximately the same quality regardless of what canner packed them. The manufacturer's name would mean little. When, however, the consumer asks for "Lily of the Valley" peas, she is asking for peas by their brand name. The brand carries a promise as to the quality that she may expect, but she has no way of knowing whether these peas would be of the same quality, a better quality, or a poorer quality than those under other brands, "Richelieu" or "Grandmother's," for example. In fact, many sellers try to convince the consumers that their products are the best obtainable. Many manufacturers with widespread distribution built up by advertising would likely resist any attempt to force uniform standards on them for fear they would lose all the advantages that they have secured by advertising. In fact, in the case of many products, the consumers may prefer individuality to uniformity. The question of just how far we should go in adopting uniform standards is interesting but too large a question to take up at this point.

Packing.—Many goods must be packed in order to be marketed successfully. Bulky goods such as cotton or hay, must

to St. Paul jobbers at 83 cents per dozen, f. o. b. St. Paul, say 7 cents per can. . . . I inquired about this corn and found it was being sold at twenty cents per can. Some spread from 7 to 20 cents on a measly little can of sub-standard corn! Now, if we canners were compelled by a Federal law to print in large type not less than one-half inch tall across the face of the label, "sub-standard" this lot of corn would have gone to the consumer for just what it was. We should be compelled to print across the front of each can on the label "sub-standard grade," "standard grade," "extra standard," "fancy grade," whatever the case may be. In this way the consumer will soon be educated and the person wanting fancy grades will be able to buy them and those wishing a cheaper quality can get them and the price will be according to grade. . . . When the time comes that I am ashamed to put on the outside of the can just what I have put into the can, then I want to get out of the business. . . . All goods shipped into Canada must be labelled in five-eighths inch large, heavy letters across the front or face of the label whether fancy, standard, or what grade there is inside the can."

An address of G. J. Lange, President of the Lange Canning Co., printed in the *Journal of Commerce*, December 23, 1922.

A law requiring the size and variety to be printed on the labels of pea cans has since been passed in Wisconsin.

often be compressed into bales to allow of economical transportation. Delicate fruits such as strawberries must be placed in small boxes to prevent mashing, liquids must be placed in bottles or barrels to prevent total loss, while eggs must be carefully packed to prevent breakage. Grain is commonly handled in bulk throughout the Central West but the manufactured products—flour, bran, and middlings—must be packed in barrels, sacks, or cartons in order to be marketed. Many farm products, such as potatoes and apples, can be loaded into the railroad cars in bulk, but they must ordinarily be placed in containers upon reaching the city markets. The fact that they arrive in bulk very often means that they bring a lower price than if they were in containers.

In recent years it has become customary for many manufacturers to place their products in packages (cans, bottles, tubes, or cartons) of a size convenient for sale to the ultimate consumer. This is often done with drugs, cereals, flour, coffee, tea, cocoa, candy, lard, molasses, dried fruits, and even sugar. It is contended that this practice greatly increases the price to the consumer. The packing of goods in this way, however, reduces the retailer's expenses in several ways. It saves his time in weighing or measuring the goods. It prevents losses caused by spilling, evaporation, and overweighing. It may lessen the cost of the outer package—barrel, box, or crate. Packing goods in this way is more sanitary. Goods in such packages are protected from flies and other insects, and are not touched by dirty hands. Many bakers wrap their loaves in paper and advertise that their bread is never touched by human hands. In some towns the people prefer to pay a cent or two more per pound to get their butter in paste-board cartons. It is also argued that package goods are of better quality. Many package goods bear the producer's name and are widely advertised, while the producer of bulk goods is often unknown to the consumer. For this reason it is said that the producer of package goods will be much more careful of the quality of his product. But even taking all of these facts into consideration it is sometimes difficult to explain the great difference in price between bulk and packaged goods. The cost of packing will not explain such differences in price. The explanation must lie in the fact that the consumer prefers and is willing to pay more for packaged goods. This may be due

partly to the effects of advertising, partly to the convenience of the packages, and partly to the indifference of the consumers to a saving of a few cents on small purchases.

Transportation.—Transportation is one of the most important functions in the marketing process. Steam, steel, and electricity have made world-wide transportation possible. These facilities have led to the development of commerce on a scale that a century ago would have seemed to be an utter impossibility. Without modern shipping facilities there would be less marketing because each community would be more self-sufficient and producers and consumers would be much closer together. Many of the problems arising out of the present marketing system would be solved and the number of middlemen reduced. This does not mean that we should tear up our railroads and sink our steamships, for commerce gives all of us many products that cannot be produced near our homes and also gives us other products cheaper than would be possible if they were produced in sections unadapted to their growth. Without commerce Pennsylvania, for example, would be without coffee, tea, oranges, rubber, chocolate, pineapples, gold, diamonds, and many other products and would have to pay more for cotton, sugar, linen, and numerous other necessities which the state can produce only at relatively high costs. Transportation will be discussed at greater length in Chapter IV.

Storage.—Goods are transported from producing points to consuming markets, but after reaching the consuming market it is often necessary that they be stored until needed by the consumers. The greater the distance from point of production the greater the need of storage, for there is added opportunity for delay in transit and it takes longer to forward orders and receive the goods.

Modern storage methods. — Refrigeration and canning have given us vegetables, fruits, eggs, fresh meats, butter, and so forth, throughout the year at more or less uniform prices. Modern transportation and storage facilities have eliminated the old "starving time" as the period before harvest was formerly called in England. Without storage facilities many goods might just as well not be produced, as they cannot be consumed at the time of production. It is a very common occurrence in a good season for large quantities of fruits and

vegetables to rot on the farms due to glutted markets and the lack of storage facilities to keep them until there is a need for them in the consuming markets.

Storage and storage facilities are discussed at greater length in Chapter V.

Financing.—All business transactions, whether producing or selling, must be financed. Finance is generally regarded as a separate subject and many books are available on banking, corporation finance, and business finance. The relation of purchasing, stockkeeping, stock turnover, prices, selling policies, and cash discounts to the use of capital, operating expenses, and net profits are considered in later chapters of this book.

The assumption of risks.—Risk is involved in all business transactions. Anyone who purchases goods for re-sale, in the same or a changed form, assumes certain risks. The goods may be destroyed by fire,[4] stolen by burglars, or damaged by flood. Losses may result from a drop in market prices, or the goods may be rendered unsaleable by a change in demand resulting perhaps from a change of style or by the placing of improved designs on the market. Competition may render it impossible to sell goods at a profit, goods may be sold on credit and the bills prove uncollectible, crop failures or industrial depressions may curtail demand, or a hundred and one other things may happen to cause losses. Some of these risks, such as fire, flood, rain, tornado and burglary can be covered by insurance. The danger of loss from a drop in prices can be shifted to others in the case of a few commodities, such as grain and cotton, by hedging transactions, as explained in Chapter XI. With most goods, however, hedging transactions are now impossible and the risk of price declines must be borne by the owner of the goods. The advisability of extending future trading so as to make hedging possible in other commodities should be carefully studied.

Most of the other hazards involved in handling goods cannot be shifted and must be borne by the dealers in the goods. People are willing to take chances in the hope of profits. A person with a certain amount of capital has the option of investing it where it will be relatively safe and yield him a moder-

[4]The fire loss in the United States during the five years, from 1918 to 1922, inclusive, was $1,855,061,130.

ate rate of interest, or of hazarding this capital in a business venture. The greater the hazard the greater must be the prospective profits to induce him to put his money and time into the enterprise. The smaller the hazard, the smaller the profits need be to attract capital and managerial ability. To the extent that risks can be eliminated, or shifted to the shoulders of professional risk takers, the lower profits can be made and the cheaper goods can be distributed. It appears that the cost of shifting risks, when this is possible, is much less than the profit necessary to induce the business man to bear the risk himself. This is true because the one to whom the hazard is shifted ordinarily assumes many risks and so can apply the law of averages in determining his rates.

There is a lack of popular understanding as to the significance of risks. Much has been heard in recent years about profits being too high. To such accusations the manufacturers and dealers reply that profits are necessary to pay for the risks incurred. Here the discussion generally stops because no one has any method of measuring these uncertainties. A few years ago a government commission published figures showing the average profits of the manufacturers in a particular industry to have been equal to 32 per cent of their invested capital in 1917. Some of the spokesmen for the manufacturers tried to defend themselves by questioning the accuracy of the figures. This was a poor defense, for the figures were apparently carefully gathered and tabulated. Another spokesman for the producers, however, met the issue squarely by arguing that 32 per cent was not an unreasonable profit for a good year, when the losses sustained in poor years were considered.

This question of risks is one that is deserving of serious thought. It is to be hoped that accurate information will be gathered to enable various types of risks to be measured with some degree of accuracy. Very little such information is now available outside the fields of insurance, and credits and collections.

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For information on grading and packing of farm products see various publications on the United States Department of Agriculture. For information on financing see various books on money and banking, corporation finance, and business finance. For information on credits see books on credits and collections.

Questions—Chapter II

1. Enumerate the advantages that would follow grading farm products according to uniform standards. Would it be possible to grade fresh vegetables according to uniform standards? Why or why not.

2. What is the distinction between standardizing and grading?

3. Would the adoption of uniform standards by manufacturers lessen the amount of advertising required to sell their products? Why or why not? Would such uniform standards be in the interest of consumers?

4. Is the salesman a producer? Explain your answer.

5. What is risk? Would it be desirable that business men be enabled to shift all risks, except those depending on their own ability, to professional risk takers? Why or why not?

6. Name the advantages of selling products in cartons and in bulk. Think of the following products: butter, rolled oats, cocoa, sugar, candy, vinegar, cold tablets, carpet tacks, and gloves.

7. Will a given product command a higher price at retail when packed in neat cartons, printed in attractive colors, than when packed in cheap cardboard cartons unprinted except for the names of the product and producer? If so, is the consumer foolish to pay the higher price?

Chapter III

THE ASSEMBLING OF FARM PRODUCTS

The assembling function.—The nature of assembling was indicated in Chapter II. Goods are assembled at many places in the marketing process. There is first the bringing together of the goods of many producers at local shipping points or factories. Next there is the concentrating of large quantities of goods at the primary markets. For instance, Minneapolis, Chicago, Kansas City, Milwaukee, St. Louis, and Duluth, are primary markets for wheat.

From the primary markets goods are often shipped to the large distributing or consuming markets, sometimes called jobbing or terminal markets. At these markets the goods are processed or distributed to jobbers and retailers. Many wholesalers perform a very important assembling function, buying thousands of articles produced in all parts of the world from producers, agents, brokers, and importers. Some retailers do very little assembling, buying all of their supplies from a few wholesalers. Other retailers, however, assemble their own goods, buying from manufacturers and dealers in the primary and distributing markets. The assembling functions performed by dealers are discussed in later chapters. This chapter is given over largely to a discussion of assembling goods at local markets and their shipment to the primary and distributing markets.

The present methods are the result of evolution. Changes are still taking place and the methods of the future may differ radically from those now in use. The methods of assembling and selling different products vary, owing to differences in the nature of the goods, to past practices, and to the success of attempts by individuals, government agencies, or coöperative organizations to introduce new or retain old methods. For example, the f. o. b. auction, by which cars of produce are sold at auction while in transit has recently been established largely as the result of the efforts of an individual produce

dealer. On the other hand, many cities have spent money to retain the old public markets.

Many kinds of goods must be assembled.—Goods produced in small quantities by many producers must be assembled for economy in marketing. This is necessary to secure cheap transportation and to supply large markets. Factory, mineral, forest, marine, and farm products must often be assembled, although as a matter of fact individual factories, mines, and mills often produce goods in large enough quantities for economical transportation and to supply a major part of the needs of the more important users, or distributors. But there are quite a number of products not produced on farms which must be assembled as the first step in the marketing process. For instance: naval stores; furs; valuable timbers such as black walnut, cherry, or red cedar; medicinal herbs and roots; lumber sawed by small mills; cocoa beans; Brazil nuts; wild rubber; fish and oysters taken by small boats; pearls; mica; and oil from slow flowing wells. It is also true of manufactured products produced in small shops or in the homes of the workers, for example, garments and the tubes for clinical thermometers. But, after all, farm products are the most important class of products which must be assembled at local shipping points.

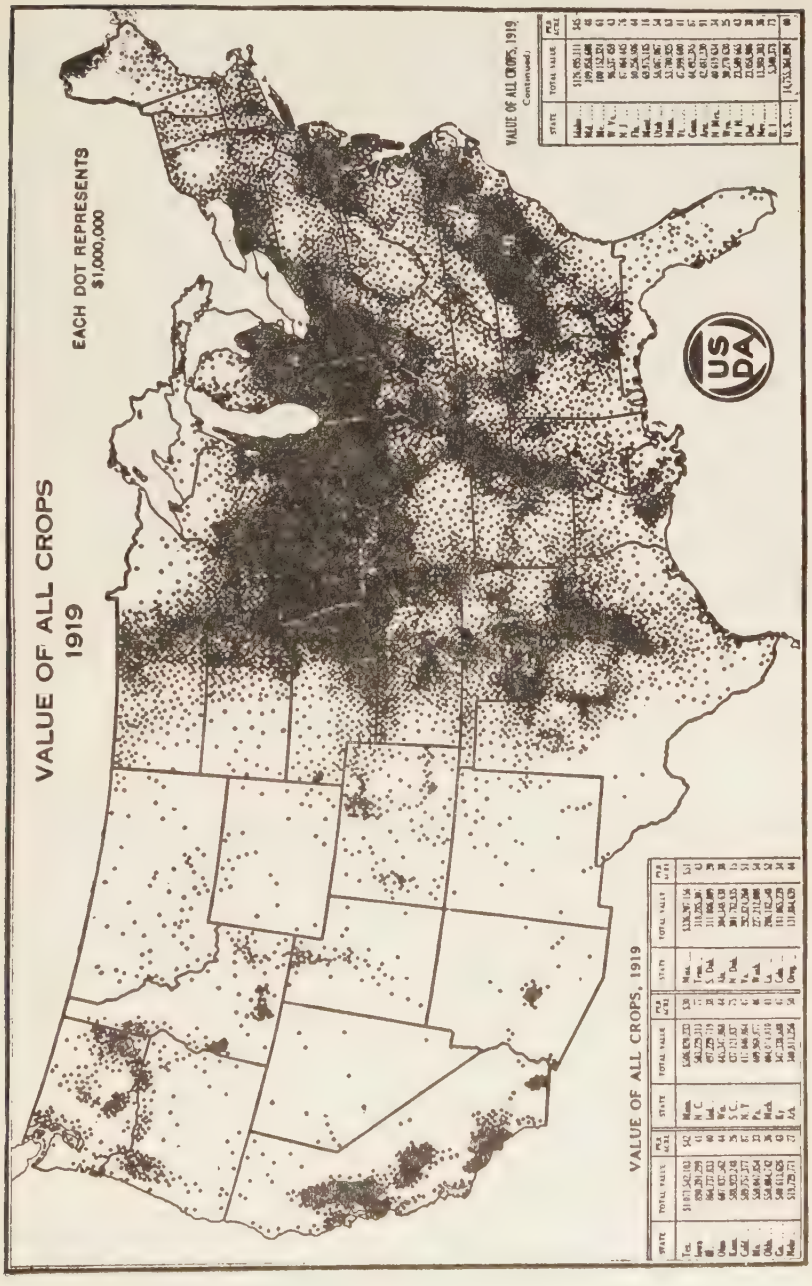
The nature of farming.—Farming is essentially a small-scale industry. It does not lend itself successfully to large-scale production. The typical American farm is a farm upon which the owner (or tenant) lives and works with the assistance of his family and perhaps one or two hired men. The average size of farms in the United States in 1920 was 148.2 acres, of which 78.6 acres were improved, and 26 acres were in woodland, the balance consisting of other unimproved land. The number of farms of various sizes in the United States in 1920 was as follows:

Under 20 acres	796,534 farms
20 to 40 acres	1,503,734 farms
50 to 99 acres	1,474,753 farms
100 to 174 acres	1,449,659 farms
175 to 499 acres	1,006,487 farms
500 acres and over	217,199 farms
Total number	6,448,366

The average values were: land and buildings, $10,514; implements and machinery, $558; and live stock, $1,240.

All of the cultivated land on a farm is seldom devoted to one crop. Ordinarily several crops are grown and a part of the land devoted to pasture, orchard, and garden. Even in the one-crop sections—for instance, the wheat belt of the Northwest and the cotton belt of the South—all of the land is not devoted to the one money crop. The farmer's crops usually are not ready for the market at one time. The grain and tobacco farmers may market most of their crops together, but the cotton farmer may spread his sales over several months, while the dairy and poultry farmers have products to market the year round.

Pioneer vs. commercial farming.—In the past, farming has been primarily a way to make a living rather than an industry to raise products for the market. Seventy-five years ago the farmer was, as a rule, largely self-sustaining, buying little from others and selling little to others. He ordinarily raised his own food—grain, fruit, vegetables, and meat; his own clothing —wool, flax, and perhaps cotton; and made many of his own tools, implements, and articles of household furniture. Grain was ground in a neighboring grist mill; fruits and vegetables were dried for winter use; fresh poultry was on his table the year around; pork was eaten fresh during the fall and winter; hams and bacon were smoked for summer use, while beef and mutton were killed occasionally during cold weather and sometimes cured for use during hot weather. Wool was carded, spun, woven, and made into garments by the women and girls. Quilting bees, corn huskings, and house raisings were at once social functions and methods of interchanging work between neighbors. Hides were tanned on the farm while shoes were made by an itinerant or a local cobbler. The farmer was ordinarily something of a blacksmith and carpenter, making many of the articles used in the house or on the farm. Other such articles were made by local artisans—wheelwrights, cabinet-makers, and locksmiths. The farmer sold few products and was little worried about market prices. A good season meant a plentiful supply of consumption goods and not low prices. If he had a market in which to sell enough goods to secure the few articles that he could not produce—steel goods, fine textiles such as calico and silk, firearms, powder, salt, and so forth, he got along nicely. However, he had to work hard throughout the year, and there were few oppor-


VALUE OF ALL CROPS
1919
EACH DOT REPRESENTS
$1,000,000
USDA
VALUE OF ALL CROPS, 1919
VALUE OF ALL CROPS, 1919
Continued

tunities for amusements. This has been referred to as pioneer farming.

During the past sixty years many changes have taken place in farming. Transportation facilities and the growth of cities have provided markets for the farmer's products and he has come more and more to raise crops for the market and to discontinue the production of products for his own use which involve a great deal of hand labor. Spinning and weaving in the home has almost passed from our memory. Factory-made clothes are replacing those made at home of factory-made cloth. Factory-made tools, implements, machines, and furniture have largely replaced those made by the farmer or the local artisan. In order to buy such factory products, the farmer has had to produce more and more products for the market. This process of raising crops for the market, and buying goods for consumption, has gone so far that there are in some sections of the country farmers who buy their butter, bread, eggs, and potatoes. Such farmers are intensely interested in market prices. Their welfare depends just as much upon the prices which they receive for the things they have to sell and the prices they pay for the things they have to buy as does that of the city dwellers.[1]

[1]Martin J. Gillen, of Chicago, sets up the following profit and loss statement for all United States farmers for 1922:

	Per Farm
Value of annual production	$2,074
Less amount consumed on farms by farm population and live stock	684
Cash received for farm products	$1,390
Disbursements:	
State and local taxes	$174
Interest on notes and mortgages	144
Rent	168
Farm labor	138
Fertilizer	37
Farm implements	50
Saddlery and harness	13
Bought from mail-order houses	45
New buildings and maintenance	80
Motor cars and trucks	69
Motor cars and trucks, repairs and operation	74
Depreciation	146
Total	$1,138
Net receipts after allowing for crops consumed on farms, taxes, rents, interest, automobiles, mail orders, new buildings, and depreciation	$251

It must not be supposed from the foregoing that farming has become entirely commercialized. There are still sections, especially in the older States of the East and South, where the farmers pay as much attention to raising crops for their own consumption as for the market. They have their own fruit orchards and vegetable gardens, raise their own poultry, churn their own butter, kill and cure their own meat, and perhaps take their own grain to the mill to be ground into meal or flour. Such farmers, perhaps, have to work harder than those who buy all their food, but they worry a great deal less about low prices.

John Fields, editor of the *Oklahoma Farmer,* after visiting his old Pennsylvania home, is quoted as follows in the *Agricultural Review* of February, 1923:

"I asked a banker friend for an estimate of the number of cowless, sowless, henless farms in his county. He looked at me in amazement. . . . 'Why none,' was his reply. 'I can't think of a single family that lives on what you'd call a farm that hasn't a cow and some chickens. Some of them don't raise hogs, but all of them fatten enough pigs to provide meat for home use.'

"So I'm still hunting for the kind of organization and legislation which will put milk and butter, ham and eggs, fried chicken, and stewed chicken with dumplings on kitchen tables in homes on farms where there are no cows, no sows, and no hens."

Specialized vs. mixed farming.—In some sections of the country farming is largely specialized; that is, the farmers devote most of their attention to producing the one money crop. In sections of the Northwest the farmers raise little but wheat, in parts of Wisconsin mostly milk, in sections of Virginia and North Carolina little but tobacco, and in many parts of the Gulf States chiefly cotton. The crops grown are generally those to which the section is suited by soil and climate, and those which the farmers have become skilled in raising and harvesting. There are other sections of the country where mixed farming prevails. A mixed farmer may raise one field

(It should be noted that 1922 was a poor year and that farms operated by tenants are counted separately, even though, as in parts of the South, the owner furnishes the tools and supervises the work.) See also *London Statist* of March 17, 1923, where figures are given.

of wheat, another of corn, another of oats, and still another of potatoes. At the same time he may have an apple orchard and a herd of dairy cows. He thus has several money crops. If the wheat crop is poor the corn crop may be good. If the price of potatoes is low the price of apples may be high. On the other hand, the wheat farmer has but one crop on which to depend. If the crop fails or if the price is low, he is "hard up" until a better season or a better price arrives. If, however, the crop is good and the price high, the specialized farmer is prosperous. His lot seems to be either "feast or famine." On the other hand, the mixed farmer may have to work harder the year around but he has a much more certain income and is much less affected by droughts, frosts or low prices for particular products. There are sections of the South where the boll weevil has been a blessing in disguise, as it forced the farmers to raise live stock, and crops other than cotton, much to their own benefit.

Why farm products must be assembled.—From the foregoing description of the farming industry it is evident that the individual farmer ordinarily has only a small quantity of any given product for sale on a single day. To transport goods economically they must be shipped in carlots to take advantage of the carload freight rates. Excluding live stock, this saving is ordinarily from 15 to 50 per cent. It is thus necessary to combine the goods of many farmers to secure a carload. The services of some middleman—local merchant, local buyer, or coöperative association—are therefore needed to store and combine goods until a carload of similar goods is obtained. Many farm products need grading and packing before being shipped. This increases the need for middlemen. The farmer is often incapable of grading his products. When goods must be graded, more goods are needed to secure a car of a given grade. The farmers have often failed to pack their goods properly, which indicates another need for middlemen.

Need of advice.—Individually, the farmers are often incapable of marketing their goods wisely. They are specialists on production. Their time is so taken up with work in the fields, with combating plant diseases, and caring for live stock that they have little time or energy to study market reports and business conditions and decide what crops should be grown and when they should be marketed. Should the wheat be sold

as soon as harvested or should it be stored for several months to await an advance in price? Should the hogs be fattened for sale in September or should the fattening be delayed for the December market? Should the "back twenty" be planted to potatoes, corn, or peas for the canning factory? Should cotton, tobacco, or peanuts be planted in the field back of the barn? These are the questions that the farmer wants answered. In the past he has guessed at the answers and taken the consequences. Several years ago the author heard a story which, whether true or false, will indicate a crude way in which the farmer can decide what crop to plant. According to the story, two men "Out West" got rich by planting the things that were cheap and ignoring those that were high. For example, if potatoes were very cheap, they planted a big acreage knowing that the low price would deter many farmers from planting and that the price was likely to be high in the fall. If the price of beans was high, they passed this crop by, believing that the high price would lead to an increased acreage and bring the price down.

The United States Department of Agriculture issues from time to time forecasts of intended plantings (acreages) of various crops.

Perhaps the greatest good that coöperative organizations can do is to analyze the market and advise their members what crops to grow, how to grade and pack them, and to pool the products, placing them on the market at favorable times. Large organizations are in a better position to carry on such work than small local associations. Local farmers' exchanges, and local buyers are often incapable of properly analyzing conditions. Coöperative organizations are discussed later.

The following quotation from the *Federal International News,* of February, 1924, illustrates the kind of advice the farmers need, the difficulty of making predictions as to future prices, and the importance of producing at reasonable costs in order to hold markets:

"The outstanding economic conclusion is that profit in cotton growing under boll weevil conditions depends more upon intensive cultivation and treatment than upon extension of acreage. The impression prevails throughout the Cotton Belt that present prices will induce farmers to put more land in cotton than ever before. If the weather should be exceptionally

favorable, as it was in 1920, and the total yield should reach the 13,000,000 bales then produced, that might be a somewhat larger supply than will be in immediate demand and present prices might be much reduced. October cotton is now quoted at less than 28 cents in anticipation of increased production. With a favorable season the yield might reach 14,000,000 or 15,000,000 bales which might depress prices much lower.

"On the other hand, if the season should be as unfavorable as last year and the boll weevil damage as great, the price might remain high, but even a high price will not bring profit to the farmer whose yield is only a bale to six or ten acres. The yield was less than that last year in many of the more heavily infested areas.

"The economists of the Association of Agricultural Workers at the Birmingham meeting presented data to show that present prices are curtailing consumption and stimulating cotton production in other lands, especially in Brazil, Argentina, Australia and the Sudan, where in addition to the stimulus of high prices government subsidies are generous. If cotton growing is once established in other lands, as is easily possible, then the South will face fierce competition upon a basis of low cost. While the world will perhaps absorb all the cotton the South can grow this year, it is by no means certain that the industry can be long sustained here at present costs.

"Hence there is every inducement in sound economics for increasing the South's total production this year by increasing the acre yield rather than by increasing the number of acres to be planted."

Variation in methods.—All products are not assembled in the same way and the same product is not assembled in the same way in all parts of the country. Cotton, for example, can be kept for months, or even years, waiting for a favorable price unless the farmer is forced to sell for financial reasons. On the other hand, tomatoes and strawberries must be sold as soon as ripe, or allowed to spoil. Potatoes are a staple product and the grower can often load one or more cars from his own farm. Eggs, to the contrary, are produced as a by-product and must be assembled by the country storekeepers and other local buyers in small lots of a few dozen from the farmers' wives. Wheat in the Central States is handled in bulk and is

nearly always sold by the farmers to the country elevators. On the Pacific coast wheat is handled in sacks and is stored in warehouses by the farmers who receive warehouse receipts which they sell to various purchasers. The elevators in the Northwest usually consign their grain to be sold on a commission basis while in the Southwest the grain is sold by the elevators either "on track" at the elevator or "to arrive" at the terminal.

It will be impossible in a book of this nature to describe the methods of assembling all farm products. In the following pages the methods of assembling and marketing a few important products are discussed. Different types of products have been selected to illustrate the methods used under different conditions and with various kinds of crops.

Wheat.—Wheat is one of the most important crops grown, both as to quantity produced and its value in commerce. The demand for wheat for bread-making, and its relative nonperishability compared with other foodstuffs, makes it one of the great staples of the world's commerce. The wheat crop in the United States varies from six hundred million to a billion bushels per year, with an average during the past five years of approximately eight hundred million bushels. The United States is the world's largest wheat producer, its average crop being slightly less than one-third of the world's total production.

Varieties of wheat.—The chief kinds of wheat grown in the United States are spring, durum, and soft and hard winter. Winter wheat is used largely for making bread and pastry flours. Spring wheat is used mostly for making bread flour, and in grinding is often blended with winter wheat. Spring-wheat flour is preferred by commercial bakeries as it will absorb more water, thus enabling more pounds of bread to be made from a barrel of flour. Durum wheat is used chiefly for making macaroni and spaghetti.

Principal producing sections.— Wheat is grown from the northern part of the cotton belt north into Canada. It is estimated that it is raised on one-third of the farms in the United States. There are, however, certain sections or areas where its production is especially important. The chief winter-wheat belt overlaps the corn belt but extends further west, as wheat will grow in a drier climate than corn. It extends west

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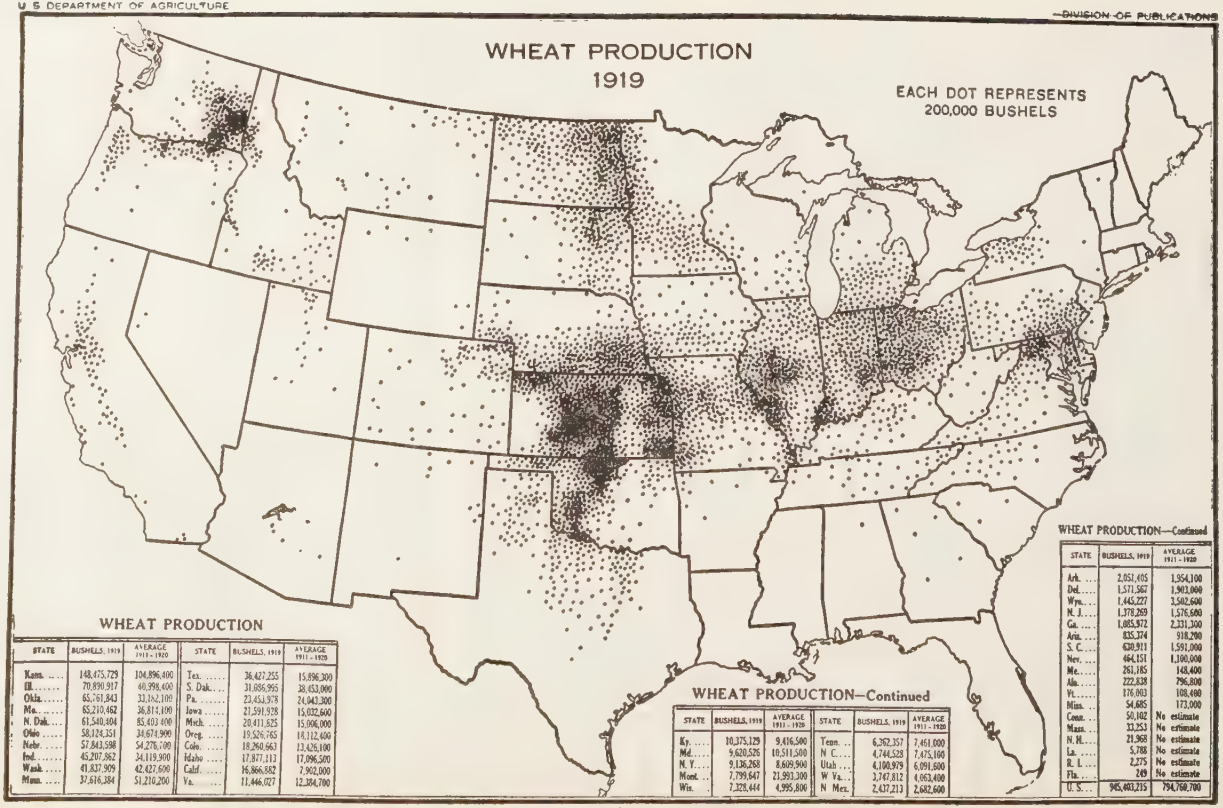

OUTLINE MAP OF THE UNITED STATES

WHEAT PRODUCTION

STATE	BUSHELS, 1919	AVERAGE 1911 - 1920	STATE	BUSHELS, 1919	AVERAGE 1911 - 1920
Kans.	148,475,729	104,896,400	Tex.	36,427,255	15,896,300
Ill.	70,890,917	40,398,400	S. Dak.	31,086,995	38,453,000
Okla.	65,761,843	33,162,100	Pa.	23,453,978	24,043,200
Mo.	65,210,462	36,814,100	Iowa	21,591,928	15,032,600
N. Dak.	61,540,404	85,403,400	Mich.	20,411,825	15,908,000
Ohio	58,124,351	34,674,900	Oreg.	19,526,765	18,112,400
Nebr.	57,843,598	54,278,100	Colo.	18,260,663	13,426,100
Ind.	45,207,862	34,119,900	Idaho	17,877,111	17,096,500
Wash.	41,837,909	42,427,600	Calif.	16,866,682	7,902,000
Minn.	37,616,384	51,210,200	Va.	11,446,027	12,384,700

WHEAT PRODUCTION—Continued

STATE	BUSHELS, 1919	AVERAGE 1911 - 1920	STATE	BUSHELS, 1919	AVERAGE 1911 - 1920
Ky.	10,375,129	9,416,500	Tenn.	6,262,357	7,451,000
Md.	9,620,526	10,511,500	N. C.	4,744,528	7,475,100
N. Y.	9,136,268	8,609,900	Utah	4,100,979	6,091,600
Mont.	7,799,647	21,993,300	W. Va.	3,747,812	4,063,400
Wis.	7,328,644	4,995,800	N. Mex.	2,437,213	2,682,600

WHEAT PRODUCTION—Continued

STATE	BUSHELS, 1919	AVERAGE 1911 - 1920
Ark.	2,051,405	1,954,100
Del.	1,571,567	1,903,000
Wyo.	1,445,227	2,502,600
N. J.	1,378,269	1,576,600
Ga.	1,085,972	2,231,300
Ariz.	835,374	918,290
S. C.	630,911	1,591,000
Nev.	464,151	1,100,000
Me.	261,185	148,400
Ala.	222,828	796,800
Vt.	176,003	108,400
Miss.	54,685	172,000
Conn.	50,102	No estimate
Mass.	33,253	No estimate
N. H.	21,968	No estimate
La.	5,788	No estimate
R. I.	2,275	No estimate
Fla.	249	No estimate
U. S.	945,403,215	794,760,700

from Ohio into Nebraska and Kansas. The area of greatest production extends from eastern Nebraska southward through central Kansas and western Oklahoma into Texas. The chief spring wheat belt extends northwestward from south central Minnesota taking in eastern South Dakota and nearly all of North Dakota. Another large producing section is on the upper Columbia River in eastern Washington and Oregon. Winter wheat makes up about two-thirds and spring wheat about one-third of the crop in this section. A fourth belt extends from southeastern Pennsylvania, southward across Maryland and Virginia into North Carolina and Tennessee. Wheat was formerly important in the Sacramento and Willamette valleys in California and Oregon but has given way to a large extent to fruits, vegetables, and other crops.

The country elevator and warehouse.[2]—The country elevators and the warehouses, of which there are approximately 30,000 in the United States, are the most important factors in the marketing of wheat at country shipping points. Elevators are buildings adapted to handling grain in bulk. They are equipped with an endless belt of scoops which carry the grain to the top of the building from where it is distributed to the various storage bins. In addition to merchandising and storing grain, elevators at times handle it for farmers or others, storing, or cleaning, and conditioning it. They also often handle side lines such as coal, feed, flour, seed, and lumber. The warehouse, sometimes called a flat house, is a building used for handling grain in sacks. Almost any kind of a building with a good roof over it will do for a grain warehouse. Most of the warehouses are found on the Pacific coast. A few still survive in the Central States. They are also found in the East and South where relatively little wheat is grown. The reason for the sack handling on the Pacific coast is the difficulty encountered in the past in getting the vessels handling the wheat from the Pacific ports to handle it in bulk. The country elevator is ordinarily built of wood, having 10 or 11 bins, and a capacity of between 25,000 and 26,000 bushels. The capacity of the average warehouse is about 34,000 bushels. The country stations in the grain States commonly have 2 or 3 elevators and the stations are ordinarily nine or ten miles apart. The

[2]The information in this section is taken from Vol. I of the report of the Federal Trade Commission on the Grain Trade.

average annual purchases of country elevators is slightly less than 100,000 bushels of all grains combined, more than one-third of the total consisting of wheat.

Types of elevators.—Country elevators are classed as line and individual. A line elevator is one controlled by an organization which operates two or more elevators at different points, while an individual elevator is operated locally as a unit. The line elevator companies ordinarily operate between 30 and 150 separate elevators. As to ownership, elevators may be classed as commercial, coöperative, mill, and malster. The commercial elevators operate to buy and sell grain at a profit. The individual elevator usually is owned locally while the line elevators are owned by a company with its head office in Minneapolis or some other primary market. Coöperative elevators are owned by the farmers and operated individually, or as lines. Mill elevators are those controlled by mills in order to secure a supply of grain for grinding. Some mills operate lines of elevators, others a single elevator. Of 9,395 separate elevators reporting to the Federal Trade Commission in 1917, forty-four per cent were operated by lines and fifty-six per cent as individual elevators. Of the forty-four per cent of line elevators, thirty-six per cent were commercial, one per cent coöperative, and seven per cent mill and malster. Of the fifty-six per cent of individual elevators, thirty per cent were commercial, eighteen per cent coöperative, and six per cent mill and malster.

Sale of wheat by farmer.—The farmer may sell his wheat in wagon load or carload quantities. As a rule he sells by the wagon load. He may sell to the local elevators or warehouses, to interior brokers, track buyers, scoop shovelers, solicitors for terminal dealers, or country mills at his local shipping station; or he may elect to dispose of it in a terminal market. As a matter of fact, practically all of the farmers in the Central West sell their grain outright to the local elevators. The scoop shovelers are irregular factors who load directly from the farmers' wagons. The brokers, track buyers, and solicitors for terminal dealers generally buy from the elevators but occasionally buy a few cars direct from the farmers. Sales to local mills are more important in the Southeastern States than in the Central West. The price at the country point is based on the price prevailing in the large primary markets for

the same grade of grain less the necessary transportation and handling costs. The elevator, of course, tries to buy the wheat as cheap as possible and to sell it for as much as possible. The farmer knows, or can easily ascertain, the price in the primary markets and the freight rate to the market and tries to get as near the primary market price, less the freight, as possible. He is, however, often at the mercy of the elevator as far as grading is concerned. The farmers have often felt that they were not getting the full value of their grain because competition between the elevators was not forcing them to pay the full price. This has been one cause for the development of coöperative elevators.

Elevator's margin.—The average margin of the country elevators on wheat was 5 cents per bushel in 1912-13, 6 cents per bushel in 1915-16, and 13 cents per bushel in 1920-21. The average margins of different types of country elevators on No. 1 northern spring wheat in 1912-13, and 1916-17 are shown by the following figures.[3]

	Cents per bushel	
	1912-13	1916-17
Individual coöperative elevators	4.35	10.92
Commercial line elevators	4.82	11.87
Individual commercial elevators	4.72	15.17
Individual mill elevators	3.79	10.22

The relation of the elevator's margins to the price received by the farmer and paid by the terminal buyers is illustrated by the following figures based on No. 2 hard winter wheat received in Chicago from seventeen typical points in South Dakota and Iowa:

	Cents per bushel		
	1912-13	1915-16	1920-21
Price paid to producer	75.4	99.6	127.5
Transportation cost	9.9	9.9	16.8
Elevators' margin	5.6	12.5	14.3
Terminal price	90.9	122.0	158.6

Movement of wheat.—The principal movement of wheat is from the West to the East and South. The only States that produced more wheat than they consumed during the years 1910 to 1914 were Kansas, North Dakota, Nebraska, Min-

[3]The report of the joint Congressional Commission of Agricultural Inquiry, 1921, Part IV, pages 21-25. Margin, as here used, is the difference between the price paid to the farmer and the average terminal price on the same day less freight.

nesota, Washington, South Dakota, Missouri, Indiana, Oregon, Idaho, Oklahoma, Montana, Colorado, Utah, Wyoming, and Maryland. Note that the only States east of the Mississippi River that produced a surplus were Indiana and Maryland. The United States is a large exporter of wheat. During the past five years our exports of wheat, including flour on a wheat basis, have averaged over two hundred million bushels per year.

Sale of wheat by elevators.—Country elevators generally ship their wheat to a commission or brokerage house on a consignment basis, or sell it outright—"on track" at the country station or "to arrive" at the terminal. In either case it is ordinarily shipped on order bills of lading with sight draft attached. The wheat may be sold to millers, terminal elevators, exporters, or others. Much of it is sold by grade or sample on the floor of the produce exchanges. The interior brokers and solicitors for terminal dealers mentioned above, attempt to buy grain for their principals or to get the elevators to ship grain to the houses which they represent. On arriving at the primary markets if the wheat is not promptly sold for shipment further east, or to millers or manufacturers located at the terminal, it is stored in the terminal elevators. The capacity of the elevators at important terminal markets, excluding mill and manufacturing storage, on July 30, 1920, was over 260,000,000 bushels.[4]

By conditioning, that is, drying, and so forth, and mixing, the elevators often raise the grade of the grain handled. Some No. 3 wheat may be mixed in with No. 2 wheat without lowering the grade to No. 2. This may make what is sometimes called a "skin" grade. A group of Chicago elevators over a period of years received 45.7 per cent of Nos. 1 and 2 and shipped out 95 per cent of Nos. 1 and 2.[4]

Wheat does not reach the consumer as such. It is converted by the mills and other manufacturers into flour, cereals, and commercial feeds for live stock.

The operations of the produce exchanges are discussed in Chapter XI, and the operation of farmers' coöperative marketing organizations in Chapter XXI. These chapters will mention other aspects of the marketing of wheat.

Other grains.—Wheat is our most important grain from a

[4]Federal Trade Commission report on the Grain Trade, Vol. III.

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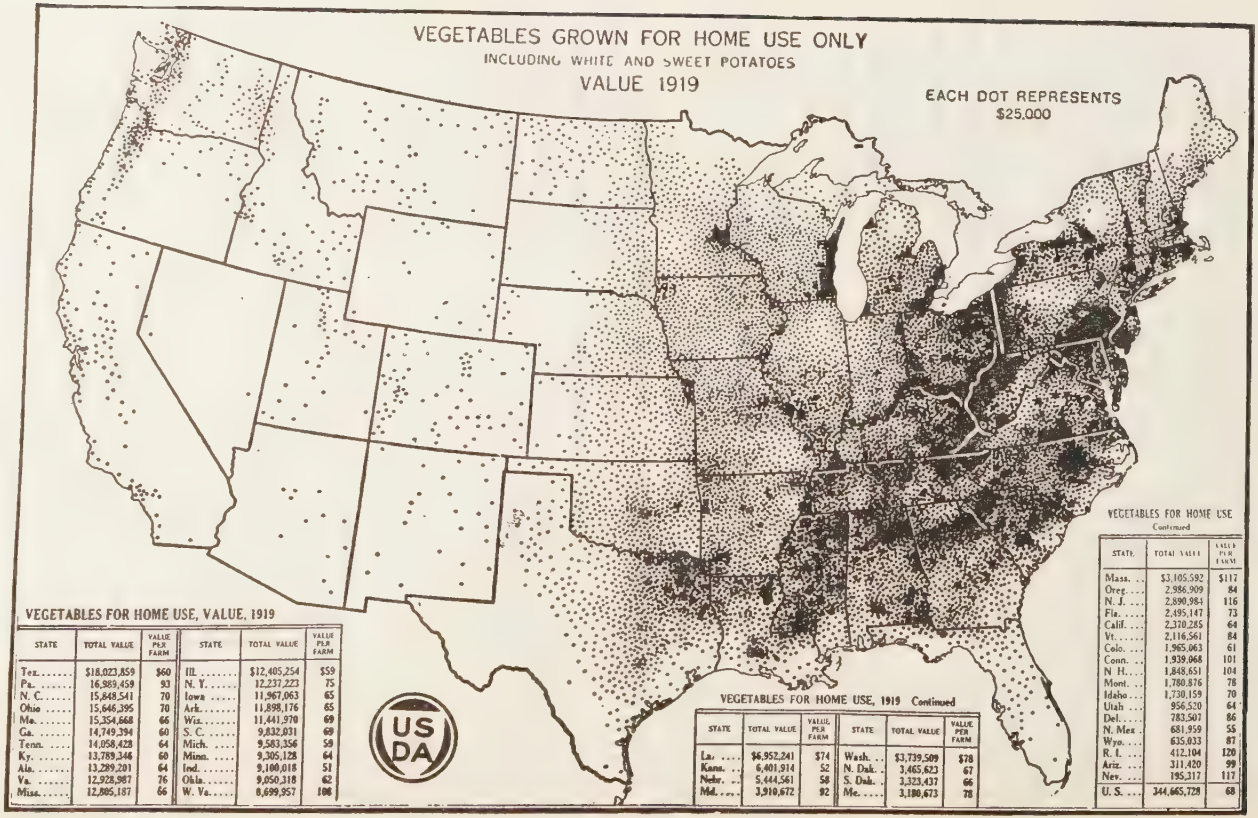
commercial standpoint but it is not nearly so important as corn when total values are considered. The annual corn crop is from three to four times as large as the wheat crop, averaging over 2,800,000,000 bushels during the past ten years. Most of the corn crop, however, is fed to live stock on the farms and part that is marketed generally reaches the consumer as pork and beef. It is estimated that 80 per cent of the corn crop goes to live stock on the farms, and 5.5 per cent to live stock off of farms. Of the balance 3.5 per cent is used for human food on the farms, 6.5 per cent ground in merchant mills, and 1.5 per cent exported. The oat crop is also very important, averaging over a billion bushels during the past fifteen years. Oats are used largely for animal food and cereal manufacture. Barley, rye, rice, buckwheat, and flax are also important grain crops in certain sections.

The methods of assembling corn, oats, barley, and rye are not fundamentally different from the methods of assembling wheat at the country and primary markets, and will not be discussed separately

Fruits and vegetables.—Fruits and vegetables constitute the largest class of farm products ready for consumption without manufacturing. They are sometimes called produce, and the men who handle them, produce dealers. Some fruits and vegetables, such as strawberries, peaches, tomatoes, and peas are very perishable. Others such as potatoes, cabbage, and apples may be satisfactorily kept for several months under proper conditions. Many perishables are canned so that they will be available for consumption the year round. Peaches, apricots, pineapples, berries, cherries, pears, peas, tomatoes, corn, string beans, pumpkins, spinach, and asparagus are the most important of such products. Vegetables such as potatoes, tomatoes, and cabbage, and fruit such as apples and strawberries will grow under a wide variety of soil and climatic conditions. Others will thrive only in certain soils and climates. Oranges, lemons, grapefruit, figs, dates, grapes, apricots, peaches, celery, and watermelons are examples of crops that thrive best in certain limited areas.

Owing to their perishability and bulkiness, fruits and vegetables were formerly consumed locally, the farmers growing their own supply and the cities and towns being supplied from the nearby farms. With improvements in transportation



VEGETABLES FOR HOME USE, VALUE, 1919

STATE	TOTAL VALUE	VALUE PER FARM	STATE	TOTAL VALUE	VALUE PER FARM
Tex.	$18,023,859	$60	Ill.	$12,405,254	$59
Pa.	16,989,459	93	N. Y.	12,237,223	75
N. C.	15,848,541	70	Iowa	11,967,063	65
Ohio	15,646,395	70	Ark.	11,898,176	65
Mo.	15,354,668	66	Wis.	11,441,970	69
Ga.	14,749,394	60	S. C.	9,832,031	69
Tenn.	14,058,428	64	Mich.	9,583,356	59
Ky.	13,789,346	60	Minn.	9,305,128	64
Ala.	13,299,201	64	Ind.	9,100,018	51
Va.	12,928,987	76	Okla.	9,050,318	62
Miss.	12,805,187	66	W. Va.	8,699,957	108

VEGETABLES FOR HOME USE, 1919 Continued

STATE	TOTAL VALUE	VALUE PER FARM	STATE	TOTAL VALUE	VALUE PER FARM
La.	$6,952,241	$74	Wash.	$3,739,509	$78
Kans.	6,401,914	52	N. Dak.	3,465,623	67
Nebr.	5,444,561	58	S. Dak.	3,323,437	66
Md.	3,910,672	92	Me.	3,180,673	78

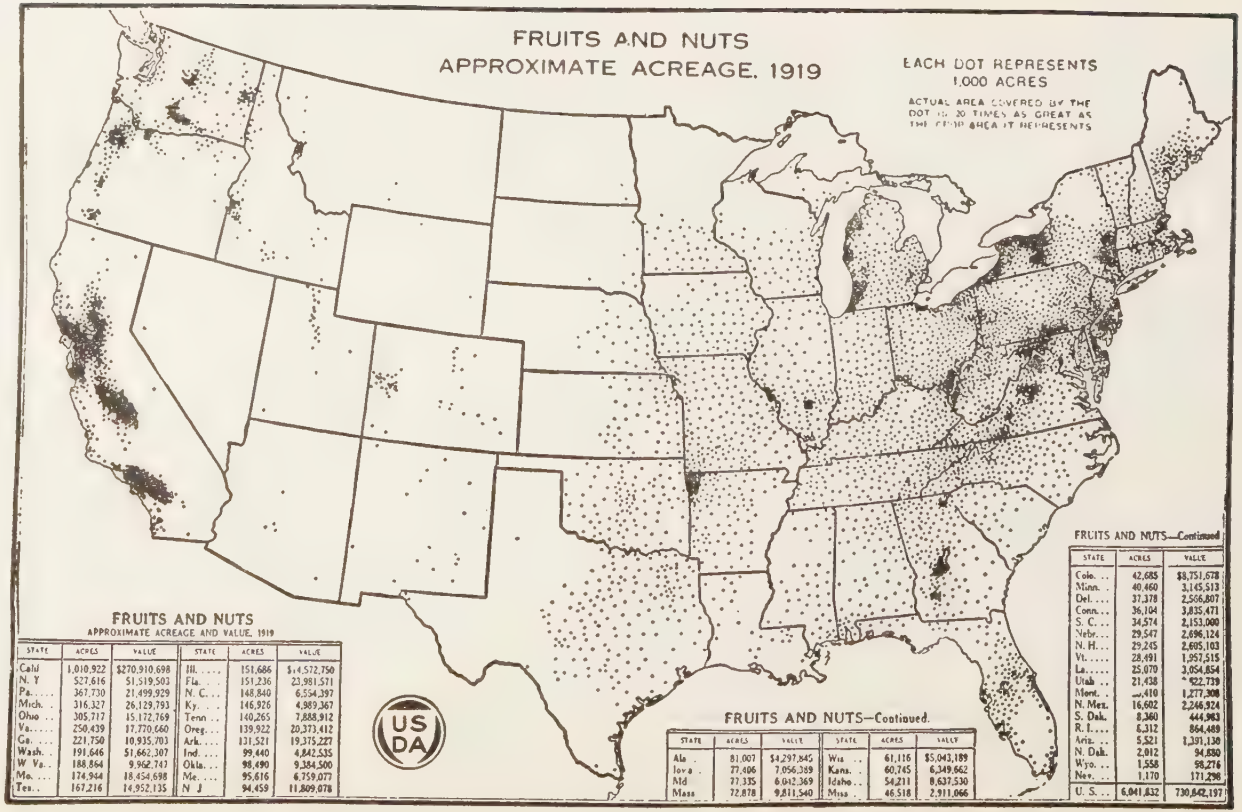
VEGETABLES FOR HOME USE
Continued

STATE	TOTAL VALUE	VALUE PER FARM
Mass.	$3,105,592	$117
Oreg.	2,986,909	84
N. J.	2,890,984	116
Fla.	2,495,147	73
Calif.	2,370,285	64
Vt.	2,116,561	84
Colo.	1,965,063	61
Conn.	1,939,068	101
N. H.	1,848,651	104
Mont.	1,780,876	78
Idaho	1,730,159	70
Utah	956,520	64
Del.	783,507	86
N. Mex.	681,959	55
Wyo.	635,033	87
R. I.	412,104	120
Ariz.	311,420	99
Nev.	195,317	117
U. S.	344,665,728	68

facilities, especially refrigerator, heated, and ventilated cars, and with the increase in the size of cities, fruits and vegetables have been moved greater and greater distances. This has made two things possible, first, the concentration of production of various products in sections especially adapted to their growth,[5] and second, the drawing on different sections to supply goods at different seasons. It is now possible to buy such fresh vegetables as string beans, peas, and tomatoes in the large city markets practically the year round, although in some cases the hot houses may be called on to fill the gap between the close of the Northern season and the receipt of the first goods from Florida, Texas, California, Mexico, Cuba, Bermuda, and other Southern sections.

New Irish potatoes are received in the northern markets in March or earlier. The first domestic ones come from northeastern Florida, being shipped from this section during the latter part of March, April, and May. As the season advances, shipments are made from more northern points. Southeastern South Carolina is the next important section. It is followed by the Charleston and Florence, S. C., sections which ship about June 10 to 15. The next section to ship is located in northeastern North Carolina. This is followed by the Norfolk, Virginia, section. The potato belt crosses Chesapeake Bay, and the next shipments come from the eastern shore of Virginia. The belt runs north through Maryland, Delaware, and New Jersey, the early shipments concluding on Long

[5]Some important crop sections are as follows: Oranges—California and Florida; grapefruit—Florida; lemons—California; peaches—central and southern Georgia, southern New Jersey and Delaware, western New York, West Virginia-Maryland district, northeastern Texas, western Arkansas and central and eastern Oklahoma, central and southern California; grapes—western New York, southwestern Michigan and central California; cranberries—Massachusetts, New Jersey and Wisconsin; and celery—New York, Florida and California. Other products are grown over a wide area, but have their commercial production fairly well centralized in a few localities. More than half the watermelons of commerce are shipped from Georgia, South Carolina and Florida. The principal shipping points for cantaloupes are: Imperial Valley, Los Angeles and Stanislaus Counties, California; Salt River Valley, Arizona; Messila Valley, on Texas-New Mexico line; Rocky Ford-Ordway section in Colorado; southwestern Arkansas; southwestern Indiana, Maryland, Delaware, and New Jersey; and southwestern Georgia. Even with potatoes, commercial production is concentrated in certain limited areas. Central and northwestern Minnesota, western New York, Wisconsin, southern peninsula of Michigan, eastern Pennsylvania and New Jersey, Ohio, and northeastern Maine are the leading sections.



FRUITS AND NUTS
APPROXIMATE ACREAGE AND VALUE, 1919

STATE	ACRES	VALUE	STATE	ACRES	VALUE
Calif	1,010,922	$270,910,698	Ill.	151,686	$14,572,750
N. Y	527,616	51,519,503	Fla.	151,236	23,981,571
Pa.	367,730	21,499,929	N. C.	148,840	6,554,397
Mich.	316,327	26,129,793	Ky.	146,926	4,989,367
Ohio	305,717	15,172,769	Tenn	140,265	7,888,912
Va.	250,439	17,770,660	Oreg.	139,922	20,373,412
Ga.	221,750	10,935,703	Ark.	131,521	19,375,227
Wash.	191,646	51,662,307	Ind.	99,440	4,842,535
W Va.	188,864	9,962,743	Okla.	98,490	9,384,500
Mo.	174,944	18,454,698	Me.	95,616	6,759,077
Tex.	167,216	14,952,135	N J	94,459	11,809,078

FRUITS AND NUTS—Continued.

STATE	ACRES	VALUE	STATE	ACRES	VALUE
Ala	81,007	$4,297,845	Wis	61,116	$5,043,189
Iowa	77,406	7,056,369	Kans.	60,745	6,349,662
Md	77,335	6,012,369	Idaho	54,211	8,637,530
Mass	72,878	9,811,540	Miss	46,518	2,911,066

FRUITS AND NUTS—Continued

STATE	ACRES	VALUE
Colo.	42,685	$8,751,678
Minn.	40,460	3,145,513
Del.	37,378	2,568,807
Conn.	36,104	3,835,471
S. C.	34,574	2,153,000
Nebr.	29,547	2,696,124
N. H.	29,245	2,695,103
Vt.	28,491	1,957,515
La.	25,070	3,054,854
Utah	21,438	922,739
Mont.	,410	1,277,308
N. Mex.	16,602	2,246,924
S. Dak.	8,360	444,983
R. I.	6,312	864,489
Ariz.	5,521	1,391,130
N. Dak.	2,012	94,830
Wyo.	1,558	98,276
Nev.	1,170	171,298
U. S.	6,041,832	730,842,197

Island in August. In the West a similar movement occurs, early shipments being made from Texas and Louisiana and later shipments from points further north until the Kaw Valley of Kansas is reached. After the close of the early season, late potatoes come on the market from Minnesota, Wisconsin, Michigan, New York, Pennsylvania, Ohio, and Maine. The shipment of fruits and melons from South Africa, Argentina, and Chile to our large cities during the Northern winter is now on a commercial basis, but as yet the prices are too high for general consumption.

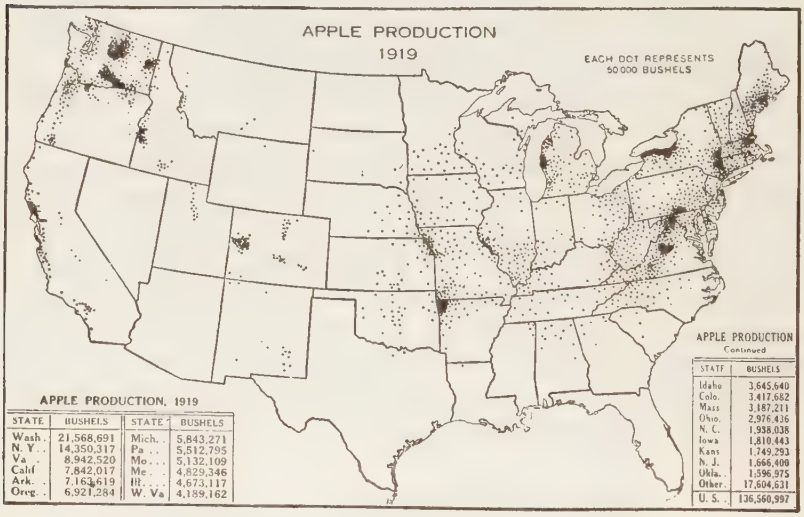
Rail shipments.—A large part of the fruits and vegetables is consumed on the farms. In spite of this and the fact that most of our small towns and many of our large cities are supplied with much of their produce from nearby farms, the shipment of fruits and vegetables by rail has become very important. About three-quarters of a million carloads of such goods are moved annually by our railroads. The following figures compiled by the Bureau of Agricultural Economics of the United States Department of Agriculture are not given as complete but will indicate the commercial importance of such crops to a very satisfactory degree.

Carlot Shipment of Fruits and Vegetables in 1921

Vegetables	*Carloads*
White potatoes	219,426
Watermelons	46,463
Cabbage	31,718
Cantaloupes	25,569
Onions	23,319
Sweet potatoes	19,071
Tomatoes	17,199
Lettuce	18,616
Celery	12,483
Spinach	4,924
Cucumbers	4,774
Cauliflower	3,895
Peppers	2,323
String beans	1,466
Asparagus	864
Egg plant	312
Mixed and bunched vegetables	15,816
Total vegetables	448,217

Fruits	*Carloads*
Apples	96,498
Oranges	65,895
Grapes	37,202
Peaches	27,300
Pears	12,821
Grapefruit	12,275
Lemons	11,887
Strawberries	10,695
Plums and prunes	5,526
Cherries	1,500
Mixed deciduous fruits	5,716
Total fruits	287,315
Total vegetables	448,217
Total fruits and vegetables	735,532

Sale of produce in nearby towns.—In supplying fruit and vegetables to nearby towns the farmer may sell direct to the consumer, to the retail grocer, or to a wholesaler or jobber, or he may consign his goods to a commission merchant. There are four ways in which he can supply the consumer direct: by peddling from house to house, by sale in a public or farmers' market, by parcel post, or by having the consumer



APPLE PRODUCTION, 1919

STATE	BUSHELS	STATE	BUSHELS
Wash.	21,568,691	Mich.	5,843,271
N. Y.	14,350,317	Pa.	5,512,795
Va.	8,942,520	Mo.	5,132,109
Calif.	7,842,017	Me.	4,829,346
Ark.	7,163,619	Ill.	4,673,117
Oreg.	6,921,284	W. Va.	4,189,162

APPLE PRODUCTION
Continued

STATE	BUSHELS
Idaho	3,645,640
Colo.	3,417,682
Mass.	3,187,211
Ohio.	2,976,436
N. C.	1,938,038
Iowa	1,810,443
Kans.	1,749,293
N. J.	1,666,409
Okla.	1,596,975
Other.	17,604,631
U. S.	136,560,997

come to the farm and take the produce away. These methods will be discussed in Chapter VIII. He may sell to the retailer by personal solicitation or delivery to his store, or upon the farmers' markets. Occasionally express or freight shipments may be made to the retailer. In the sale to the wholesaler or jobber the farmer may display his goods in a public market, generally an open or curb market, or he may solicit business from store to store. In other cases the wholsaler may visit the farms and purchase products which he himself will harvest and haul to the city, or he may contract for the goods to be delivered to his store.

Commission business.—The farmers may consign their produce to be sold on a commission basis to commission merchants. Shipments may be made by truck, by rail, or by boat. After the goods are sold the farmer receives a statement, an account sales, from the merchant, showing the gross receipts and the deductions for transportation charges, other expenses,

and commission, together with a remittance for the amount due the shipper. Not nearly as many goods are shipped on a consignment basis as formerly. The reasons for this are explained in Chapter XII. A considerable amount of produce, however, is still consigned to large cities located close to producing sections where a personal contact can be established between the farmer and the commission merchant; for example, Philadelphia and Cleveland.

Sale to canning factories.—Canning factories ordinarily are located in farming communities so that they can draw their raw materials directly from the farms. It takes several hundred or a thousand acres of crops to supply most factories with a sufficient quantity of produce to make possible their profitable operation. It requires many farmers to supply a canning factory unless the owner of the factory himself engages in extensive farming operations. There were 3,082 factories canning vegetables and fruits in 1919. Some canning factories make contracts with the farmers in the spring for the planting of a given acreage in certain crops, all of the product to be delivered to the cannery at a stipulated price. Under such contracts the canner often supplies the farmers with seeds free or below cost. By this arrangement the farmer is assured of a market for his product. If the season is poor, he often could sell it to others for a higher price than that called for in the contract. On the other hand, if the season is good he often receives a higher price than prevails on the market, and, in fact, the canner sometimes has to pay for more produce than his plant can handle. At other times the farmers raise products without signing a contract, selling them for whatever they will bring when ready for the market. This is a common practice in the Maryland tomato district, where the farmers sell to the factories or in the Philadelphia or Baltimore markets, whichever offers the better price. The canner under such conditions does not know his raw material cost until the product is in the cans. In sales to canning factories the farmers ordinarily harvest the crops and deliver them to the factory.

Sale of produce for rail shipment.—Goods for shipment by rail must be assembled at a country shipping point. It is often impossible for an individual farmer to load a car within 48 hours. For this reason, a local buyer is necessary. This

local buyer may be a farmers' coöperative association, a carlot wholesaler who sends his buyers from place to place as crops are ready for shipment, a broker representing city dealers, or a local merchant. The 1920 census reports 10,540 buyers and shippers of farm produce. Occasionally goods are sold at auction at country shipping points, a car being knocked down to the highest bidder. This is not unusual with Louisiana strawberries. Not infrequently the carlot wholesalers finance the growers by loans made to raise and harvest the crop. Sometimes the farmers grade their goods, but very often this must be done by the local buyers. In the case of fruit it is a common practice for the buyers to buy the crop on the trees, and harvest, grade, and pack it themselves.

The local merchant or the coöperative association may consign the cars to a commission merchant, may have them sold in one of the large cities by a broker, may have them sold by an f. o. b. auction, or may themselves sell them to a carlot receiver. The associations frequently have their own salaried representatives in the large cities during the shipping seasons to dispose of their products. Many cars, notably those belonging to carlot wholesalers, are "tramped," that is, shipped without a definite destination, sold while "rolling" and diverted to the market offering the best price.

Potatoes.—The white potato is by far the most important vegetable grown in either the United States or Europe. It takes about 400,000,000 bushels to supply our needs. When the crop is below this, prices are usually high during the following spring, while if the crop is above this, prices are likely to be low during the latter part of the crop year.[6]

Potatoes in the producing sections of the Northern and Central States are generally sold in bulk, wagon or truck loads, for cash at local shipping points. The buyers are ordinarily wholesale shippers who grade and sack the potatoes, and either load into cars for movement to the consuming markets, or store in local frost-proof warehouses. Some wholesale shippers operate as many as 50 to 150 such warehouses. In

[6] *Report Joint Commission of Agricultural Inquiry*, 1921, Part IV, page 101. For a discussion of the various factors affecting the price of potatoes, see University of Minnesota Agricultural Experiment Station, technical bulletin No. 10, by Holbrook Working.

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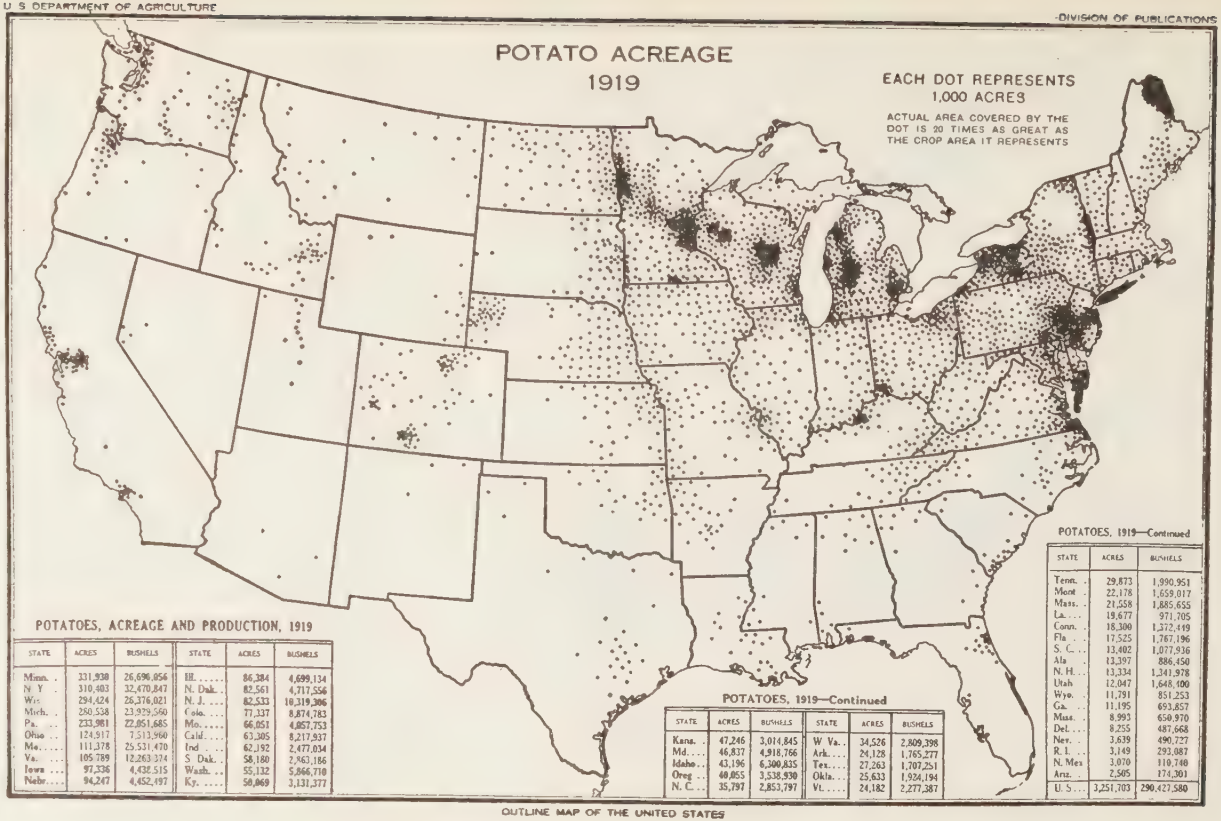

POTATO ACREAGE
1919
EACH DOT REPRESENTS
1,000 ACRES
ACTUAL AREA COVERED BY THE DOT IS 20 TIMES AS GREAT AS THE CROP AREA IT REPRESENTS

OUTLINE MAP OF THE UNITED STATES

POTATOES, ACREAGE AND PRODUCTION, 1919

STATE	ACRES	BUSHELS	STATE	ACRES	BUSHELS
Minn.	331,938	26,696,056	Ill.	86,384	4,699,134
N. Y.	310,403	32,470,847	N. Dak.	82,561	4,717,556
Wis.	294,424	26,376,021	N. J.	82,533	10,319,306
Mich.	250,538	23,929,560	Colo.	77,337	8,874,783
Pa.	233,981	22,051,685	Mo.	66,051	4,057,753
Ohio	124,917	7,513,960	Calif.	63,305	8,217,937
Me.	111,378	25,531,470	Ind.	62,192	2,477,034
Va.	105,789	12,263,374	S. Dak.	58,180	2,963,186
Iowa	97,236	4,438,515	Wash.	55,132	5,866,710
Nebr.	94,247	4,452,197	Ky.	50,069	3,131,377

POTATOES, 1919—Continued

STATE	ACRES	BUSHELS	STATE	ACRES	BUSHELS
Kans.	47,246	3,014,845	W. Va.	34,526	2,809,398
Md.	46,837	4,918,766	Ark.	24,128	1,765,577
Idaho	43,196	6,300,835	Tex.	27,263	1,707,251
Oreg.	40,055	3,538,930	Okla.	25,633	1,924,194
N. C.	35,797	2,853,797	Vt.	24,182	2,277,387

POTATOES, 1919—Continued

STATE	ACRES	BUSHELS
Tenn.	29,873	1,990,951
Mont.	22,178	1,659,017
Mass.	21,558	1,885,655
La.	19,677	971,705
Conn.	18,300	1,372,149
Fla.	17,525	1,767,196
S. C.	13,402	1,077,936
Ala.	13,397	886,450
N. H.	13,334	1,341,978
Utah	12,047	1,648,100
Wyo.	11,791	851,253
Ga.	11,195	693,857
Miss.	8,993	650,970
Del.	8,255	487,668
Nev.	3,639	490,727
R. I.	3,149	293,087
N. Mex.	3,070	110,740
Ariz.	2,505	174,301
U. S.	3,251,703	290,427,580

the West the growers generally grade and sack their own potatoes and sell in carlots for cash. In som cases they contract for sale at a stipulated price prior to delivery and receive an advance payment on account. Early Southern potatoes are generally graded, packed in barrels, and loaded in the cars by the growers. They are then commonly sold on track to cash buyers. Often, however, potatoes are consigned to commission merchants or sold through brokers.[7]

Cotton. —Cotton is one of the most important crops produced in the United States. Including seed, it generally ranks third in total value, coming after corn, and hay and forage. It ranks first among all farm crops in commercial importance. This country produces more than one-half of the world's total cotton crop. Cotton is grown in the South Atlantic and Gulf States from Norfolk, Virginia, to Austin, Texas, the belt extending up the Mississippi valley to Memphis. The problems involved in its production are many, "the one-crop system" "colored tenants," and "boll weevil" suggesting some of the more important ones. Cotton furnishes the raw material for our largest textile industry, while the seed supplies important human and animal foods. The marketing of cotton is of great interest, owing partly to the large speculative element. The farmers generally sell to country buyers, who in turn sell to cotton shippers. In recent years coöperative associations have developed among the growers for the sale of their cotton. According to the United States Department of Agriculture, during the 1922-23 season, such organizations marketed over 800,000 bales. Some of these coöperative associations only assemble and classify the cotton, while others sell in the Northern markets, thus performing the services of both country buyers and shippers.

The cotton shippers purchase from the country buyers and from the farmers and sell to cotton dealers throughout the country. The cotton dealers sell to the mills. They ordinarily buy from the shippers only for immediate resale to the mills. They have generally replaced the brokers, who formerly sold for the shippers on a commission basis.

Dairy products.—Milk is one of the most important of farm products. The production was estimated at ninety-odd billion pounds, worth $2,000,000,000 to the producers in 1919. Raw

[7] *Report of Joint Congressional Commission,* 1922, Part IV, Chapter 4.

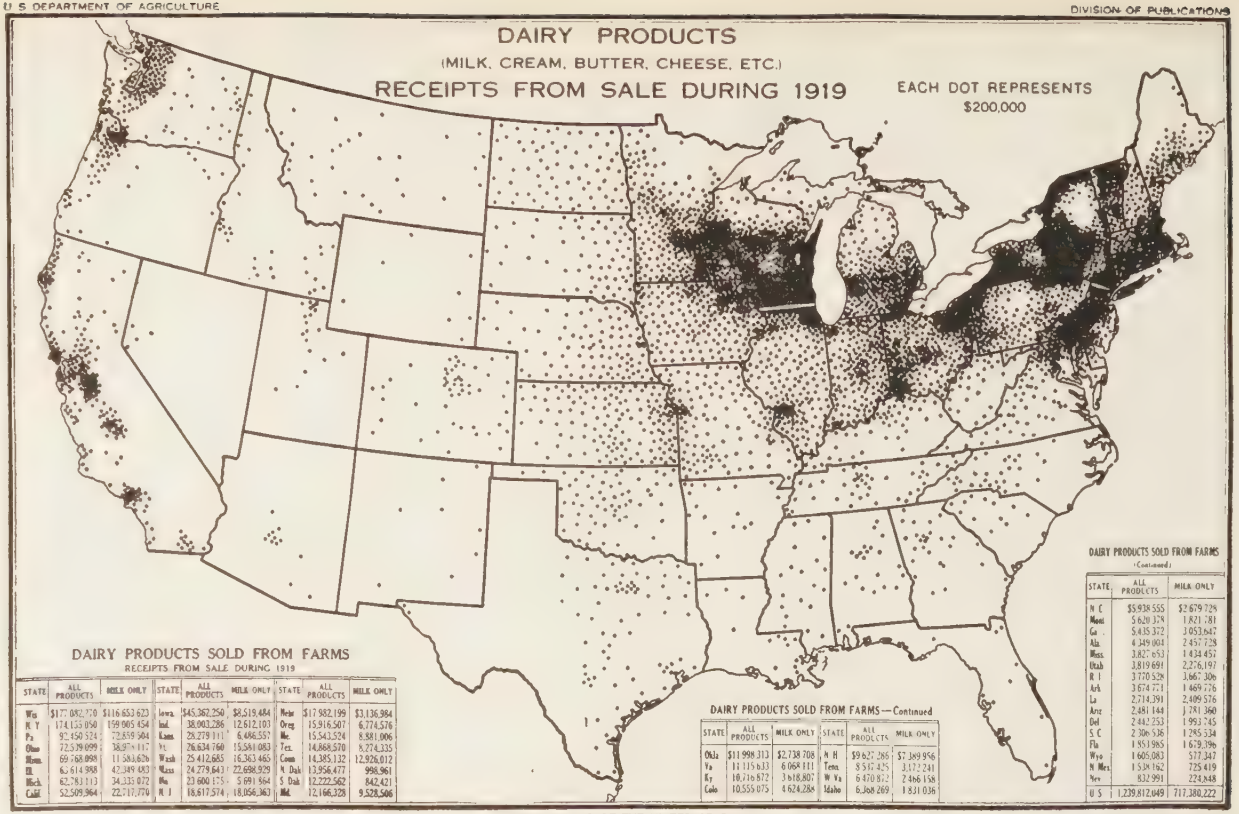
COTTON ACREAGE 1919
EACH DOT REPRESENTS 10,000 ACRES
ACTUAL AREA COVERED BY THE DOT IS 22 TIMES AS GREAT AS THE CROP AREA IT REPRESENTS
COTTON ACREAGE AND YIELD PER ACRE
COTTON PRODUCTION 1919
EACH DOT REPRESENTS 2,000 BALES
COTTON PRODUCTION
U S P A

milk is very perishable but many of the manufactured products can be stored for long periods. A part of the milk reaches the consumers as raw milk without undergoing manufacture, unless pasteurizing be called manufacturing. Other parts are manufactured into butter, cheese, condensed milk, evaporated milk, powdered milk, ice cream, milk chocolate, and malted milk. About one-half of the milk is manufactured, about 43 per cent is used for household purposes, and about 7 per cent fed to live stock or wasted. The per capita consumption of raw milk is about one pint daily. The production of the chief milk products in 1919 was as follows:

Butter on farm	685,000,000 lbs.
Butter, in factories	873,907,132 lbs.
Total	1,558,907,132 lbs.
Cheese	430,853,213 lbs.
Evaporated milk	1,799,082,000 lbs.
Condensed milk	564,522,000 lbs.

There are over twenty-four million milk cows in the United States. Some of these cows are on specialized dairy farms that raise little but milk; some are on mixed farms where milk is but one of the several money crops; and others are kept by farmers and others to supply only their own families with milk. There is naturally a great concentration of cows near the large cities to supply fresh milk. The leading dairy sections in the country are as follows: first, central and southern Wisconsin, southeastern Minnesota, northern Illinois, and northeastern Iowa; second, central, western and northern New York, northwestern Pennsylvania, and northeastern Ohio; third, southern New England extending southwest and across northern New Jersey, southeastern Pennsylvania into Maryland; fourth, southwestern Ohio; fifth, southern Michigan; and sixth, northern Vermont. Coöperative organizations have become very important in the marketing of milk and its products.

Seasonal production.—The demand for dairy products, except ice cream, is pretty evenly distributed throughout the year, while the heavy milk production comes in the late spring and summer when the cows are on grass. The surplus milk at this season is converted into butter and cheese, or into condensed, evaporated, or powdered milk and stored for use during the winter. About 47 or 48 per cent of the creamery



OUTLINE MAP OF THE UNITED STATES

DAIRY PRODUCTS SOLD FROM FARMS

RECEIPTS FROM SALE DURING 1919

STATE	ALL PRODUCTS	MILK ONLY	STATE	ALL PRODUCTS	MILK ONLY	STATE	ALL PRODUCTS	MILK ONLY
Wis	$177 082 370	$116 853 623	Iowa	$45 362 250	$8 519 484	Nebr	$17 982 199	$3 136 984
N Y	174 155 050	159 005 454	Ind	38 003 286	12 612 103	Oreg	15 916 507	6 774 576
Pa	92 450 524	72 859 504	Kans	29 279 111	6 466 557	Me	15 543 524	8 581 006
Ohio	72 579 099	38 [illegible] 117	Vt	26 634 760	15 581 083	Tex	14 868 570	8 274 335
Minn	69 688 098	11 583 626	Wash	25 412 665	16 363 465	Conn	14 385 132	12 926 012
Ill	62 614 998	42 389 483	Mass	24 279 643	22 698 929	N Dak	13 956 477	998 961
Mich	62 781 113	34 235 872	Mo	23 600 175	5 691 564	S Dak	12 222 562	842 421
Calif	52 509 964	22 717 770	R I	18 617 574	18 056 363	Md	12 166 328	9 528 506

DAIRY PRODUCTS SOLD FROM FARMS—Continued

STATE	ALL PRODUCTS	MILK ONLY	STATE	ALL PRODUCTS	MILK ONLY
Okla	$11 998 313	$2 738 708	N H	$9 627 266	$7 389 956
Va	11 715 633	6 068 111	Tenn	8 537 425	3 177 241
Ky	10 716 872	3 618 807	W Va	6 470 812	2 466 158
Colo	10 555 075	4 624 286	Idaho	6 368 269	1 831 036

DAIRY PRODUCTS SOLD FROM FARMS

(Continued)

STATE	ALL PRODUCTS	MILK ONLY
N C	$5 938 555	$2 679 729
Mont	5 620 329	1 821 781
Ga	5 435 372	3 053 647
Ala	4 349 003	2 457 728
Miss	3 827 653	1 434 457
Utah	3 819 691	2 276 197
R I	3 770 529	3 667 306
Ark	3 674 721	1 469 576
La	2 714 391	2 409 576
Ariz	2 481 144	1 781 360
Del	2 442 253	1 993 745
S C	2 306 536	1 295 534
Fla	1 953 985	1 679 396
Wyo	1 605 083	537 347
N Mex	1 539 162	725 419
Nev	832 991	224 348
U S	1 239 812 049	717 380 222

butter is made during the four months of May, June, July, and August.

Butter factories.—Butter is made both on the farms and in butter factories commonly called creameries, of which there were 3,738 in the United States in 1919. The amount of factory butter has increased rapidly in recent years while dairy butter has decreased. In 1879 less than 4 per cent of the butter was made in factories. By 1899 more than 28 per cent of the butter was factory-made, while at present about 60 per cent of our butter is made thus.

Butter factories are of two kinds: first, local creameries, which serve the farmers in the immediate neighborhood; and second, large creameries, called centralizers, which draw their raw materials from large areas, cream at times being shipped several hundred miles. Local creameries are generally found in specialized dairy communities such as Wisconsin. Centralizers, on the other hand, are generally found in sections of light butter fat production such as Kansas and Nebraska where cows are kept as a side line. The output of creameries varies from 50,000 to 1,000,000 pounds of butter per year. Centralizers have an output ranging from 200,000 to 21,000,000 pounds.[8] Local creameries draw their cream from nearby farmers who bring it in their wagons or automobiles. Macklin[9] states that 25 farms, milking 20 cows each, will supply enough cream to make possible the successful operation of a creamery. In specialized dairy districts most of the farmers are located within a few miles of a creamery. Cream is seldom kept more than two days and in the summer daily deliveries are the rule. The centralizers, on the other hand, cannot secure their cream so fresh. In Kansas the average farmer produces less than two pounds of butter fat per day. It would take him from 5 to 8 days to fill a five-gallon can of cream. The average centralizer in Kansas makes 700,000 pounds of butter per year. To do this, butter fat must be gathered from at least 1,500 farmers, many of whom are too far away to deliver their cream directly to the centralizers and some of whom will not even make direct express shipments. This has led to the development of cream station middlemen (some are agents of centralizers and some are

[8] *Federal Trade Commission,* "Milk and Milk Products," 1921, page 68.
[9] "Efficient Marketing for Agriculture," pages 36-37.

independent) who assemble cream from an average of 25 farmers and make regular shipments to the factories.[10]

Sale of butter.—The butter is marketed very largely through wholesale receivers. The factories sell to them direct, consign to them, or reach them through brokers. Very often the creameries have contracts with certain wholesalers to dispose of their outputs regularly. The wholesalers sell to the retailers and to jobbers who sell to retailers, hotels, and restaurants. Some of the large centralizers have branch houses to dispose of their products. Sometimes they also do a merchandising business in butter produced by others. Two such companies in 1918, The Beatrice Creamery Co., including the Fox River Butter Co., and the Blue Valley Creamery Co., marketed 10.7 per cent of the country's creamery butter.[11]

Cheese factories.—Wisconsin and New York are the most important States in the manufacture of cheese. About 98 per cent of the cheese is factory-made. Cheese factories are generally located near the farms and the milk is delivered by the farmers themselves. There were 3,530 cheese factories in the United States in 1919. In some cases the whey is hauled back to the farm and fed to the hogs. More than 50 per cent of the cheese is made during May, June, July, and August. Cheese is marketed in the same general way as butter.

Fresh milk.—It has been a very common practice for the dairy farmers in the smaller towns to deliver their milk direct to the consumers. The waste resulting from the duplication of routes by different farmers has, however, caused the distribution of milk to be taken over in many cities by distributing companies to whose plants the farmers deliver the milk. The larger companies generally have stations in the various producing sections to which the farmers deliver the milk. The distributing companies ship it to the cities where it is pasteurized, bottled, and delivered to the home of the consumers, and to retail grocers, restaurants, and so forth.

Eggs.—Eggs are nearly always a by-product on the farm and are produced in practically every part of the country. There are only a few farms devoted exclusively to egg production. Eggs, being so perishable and fragile, must be mar-

[10] *Ibid.*

[11] *Federal Trade Commission, Report on Milk and Milk Products,* 1921, page 73.

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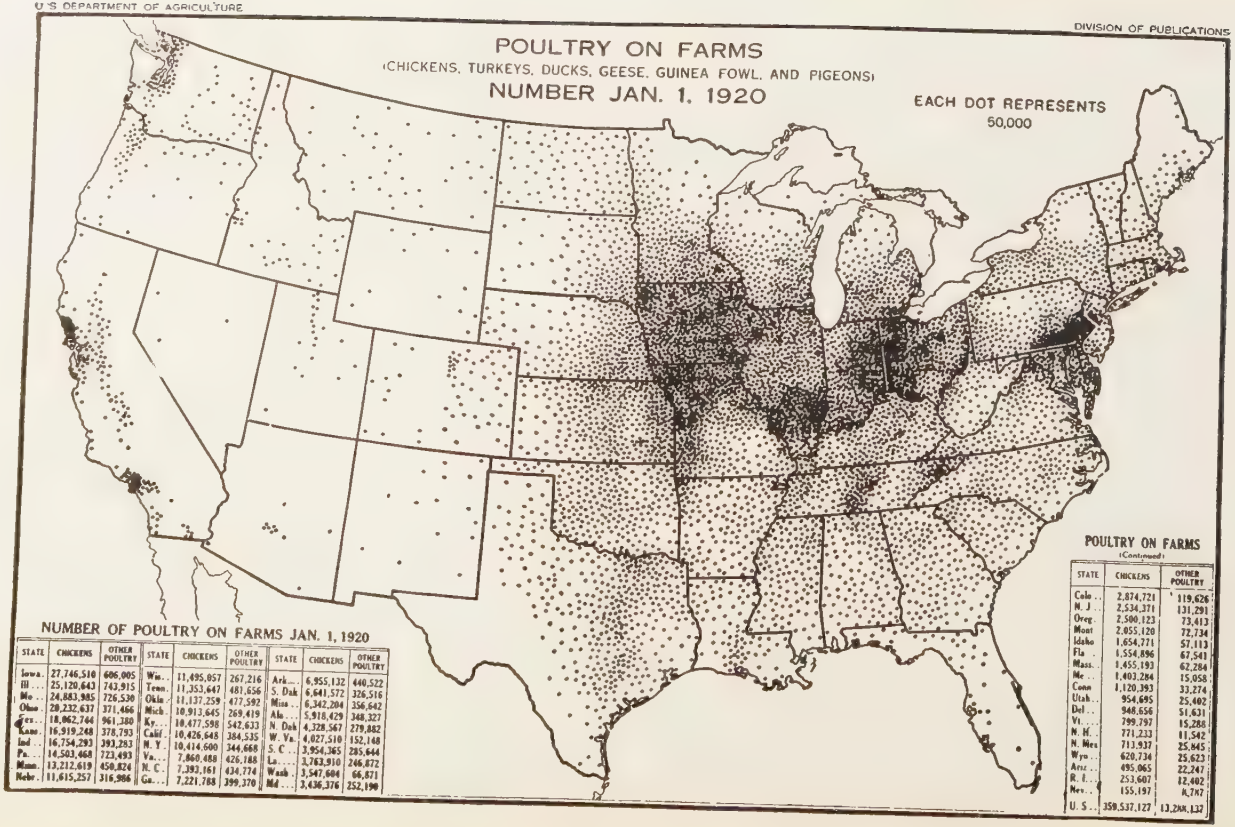


NUMBER OF POULTRY ON FARMS JAN. 1, 1920

STATE	CHICKENS	OTHER POULTRY	STATE	CHICKENS	OTHER POULTRY	STATE	CHICKENS	OTHER POULTRY
Iowa	27,746,510	606,005	Wis.	11,495,057	267,216	Ark.	6,955,132	440,522
Ill.	25,120,643	743,915	Tenn.	11,353,647	481,656	S. Dak.	6,641,572	326,516
Mo.	24,883,985	726,530	Okla.	11,137,259	477,592	Miss.	6,342,204	356,642
Ohio	20,232,637	371,466	Mich.	10,913,645	269,419	Ala.	5,918,429	348,327
Tex.	18,062,744	961,380	Ky.	10,477,598	542,633	N. Dak.	4,328,567	279,882
Kans.	16,919,248	378,793	Calif.	10,426,648	384,535	W. Va.	4,027,510	152,148
Ind.	16,754,293	393,283	N. Y.	10,414,600	344,668	S. C.	3,954,365	285,644
Pa.	14,503,468	723,493	Va.	7,860,488	426,188	La.	3,763,910	246,872
Minn.	13,212,619	450,824	N. C.	7,392,161	434,774	Wash.	3,547,604	66,871
Nebr.	11,615,257	316,986	Ga.	7,221,788	399,370	Md.	3,436,376	252,190

POULTRY ON FARMS
(Continued)

STATE	CHICKENS	OTHER POULTRY
Colo.	2,874,721	119,626
N. J.	2,534,371	131,291
Oreg.	2,500,123	73,413
Mont.	2,055,120	72,734
Idaho	1,654,771	57,113
Fla.	1,554,896	67,541
Mass.	1,455,193	62,284
Me.	1,403,284	15,058
Conn.	1,120,393	33,274
Utah	954,695	25,402
Del.	948,656	51,631
Vt.	799,797	15,288
N. H.	771,233	11,542
N. Mex.	713,937	25,845
Wyo.	620,736	25,623
Ariz.	595,065	22,247
R. I.	253,607	12,402
Nev.	155,197	6,767
U. S.	350,537,127	13,248,132

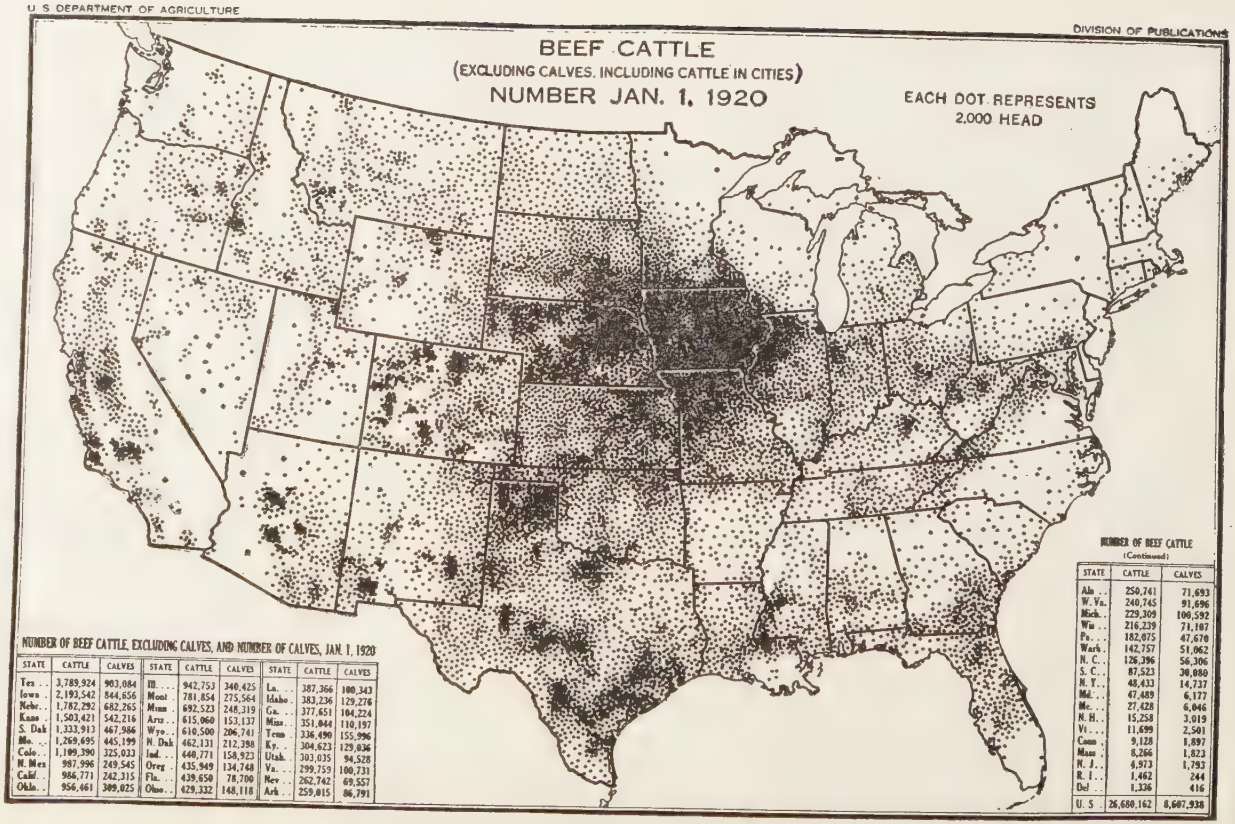
keted very soon after they are laid and must be packed in special containers. The farmer generally sells them to the local storekeeper; to a traveling egg buyer, or huckster, who goes from house to house buying eggs; or to a produce merchant —either a country shipper or a wholesale receiver. Such buyers as a rule do not secure a carload of eggs during a week, so they resell them to carlot shippers located at convenient assembling points, the eggs being moved to such points by wagon, truck, or in less-than-carload rail shipments. The carlot shipper generally candles and repacks the eggs, and ships them in carlots to the distributing markets. He sells them himself, or through a broker to a carlot wholesaler, or consigns them to a commission merchant. Of course, many eggs move in less-than-carlot express shipments and also by parcel post. This is especially true of eggs shipped to nearby markets —to be sold as strictly fresh at fancy prices, or during hot weather when the shipper is unable to accumulate a carload before they spoil. On the Pacific coast, eggs are marketed largely by farmers' coöperative organizations.

Live stock.—The United States leads the world in the production of hogs, is second in the production of cattle, and fourth in the production of sheep. The number and value of the chief kinds of live stock on our farms in 1922 was as follows:

	Number	*Total value*	*Average value per head*
Milch cows	24,028,000	$1,224,767,000	$50.97
Other cattle	41,324,000	982,666,000	23.78
Swine	56,996,000	573,405,000	10.06
Sheep	36,048,000	173,159,000	4.80
Horses	19,099,000	1,346,154,000	70.48
Mules	5,436,000	479,806,000	88.26

The United States was formerly an important exporter of meat. In recent years, excepting the war period, our meat exports have declined. This has been due to an increased domestic consumption, and to the fact that cattle and sheep raising has tended to remain stationary. Our per capita consumption of meat was estimated as follows for 1922:

Pork, excluding lard	76.0 pounds
Beef	61.4 pounds
Veal	7.3 pounds
Mutton, lamb, and goat meat	5.0 pounds
Lard	14.1 pounds
Total meat and lard	163.8 pounds



NUMBER OF BEEF CATTLE, EXCLUDING CALVES, AND NUMBER OF CALVES, JAN. 1, 1920

STATE	CATTLE	CALVES	STATE	CATTLE	CALVES	STATE	CATTLE	CALVES
Tex. .	3,789,924	903,084	Ill. . . .	942,753	340,425	La. . .	387,366	100,343
Iowa .	2,193,542	844,656	Mont	781,854	275,564	Idaho .	383,236	129,276
Nebr. .	1,782,292	682,265	Minn	692,523	248,319	Ga. . .	377,651	104,224
Kans .	1,503,421	542,216	Ariz . .	615,960	153,137	Miss . .	351,044	110,197
S. Dak	1,333,913	467,986	Wyo . .	610,500	206,741	Tenn .	336,490	155,996
Mo. . .	1,269,695	445,199	N. Dak	462,131	212,398	Ky. . .	304,623	129,036
Colo. . .	1,109,390	325,033	Ind. . .	440,771	158,923	Utah .	303,035	94,528
N. Mex	987,996	249,545	Oreg .	435,949	134,748	Va. . .	299,759	100,731
Calif. .	956,771	242,315	Fla. . .	429,650	78,700	Nev . .	262,742	69,557
Okla. .	956,461	389,025	Ohio. .	429,332	148,118	Ark . .	259,015	86,791

NUMBER OF BEEF CATTLE
(Continued)

STATE	CATTLE	CALVES
Ala . .	250,741	71,693
W. Va.	240,745	91,696
Mich. .	229,309	100,592
Wis . .	216,239	71,107
Pa. . .	182,075	47,670
Wash .	142,757	51,062
N. C. .	126,396	56,306
S. C. .	87,523	30,080
N. Y. .	48,433	14,737
Md. . .	47,489	6,177
Me. . .	27,428	6,046
N. H. .	15,258	3,019
Vt . . .	11,699	2,501
Conn .	9,128	1,897
Mass .	8,266	1,823
N. J. .	6,973	1,793
R. I. .	1,462	244
Del . .	1,336	416
U. S	26,680,162	8,607,938

Live-stock sections.—Live stock is raised to some extent on nearly all farms. The production for commercial purposes is, however, especially important in certain sections. The chief producing sections for beef cattle are: first, the corn belt, centering in Iowa and Nebraska and adjoining sections of South Dakota, Minnesota, Illinois, Missouri, and Kansas; and second, the range area including the Great Plains and Mountain States. Cattle raised in the range States may be shipped to the corn belt for fattening. The five leading States in beef production, in the order of their importance are: Texas, Iowa, Nebraska, Kansas, and Missouri. The five States leading in shipping cattle to market are: Nebraska, Illinois, Texas, Missouri, and Iowa.

Sheep are raised in the East primarily for mutton, and in the far West primarily for wool. The principal Eastern sheep section embraces the southwestern corner of Pennsylvania, central and eastern Ohio, and southeastern Michigan. In the West sheep are often raised in the drier sections and higher mountains because of their ability to eat shorter grass than cattle. Important areas are found in all States from Texas northwestward to Washington. The five leading States are: Texas, California, Wyoming, Idaho, and New Mexico.

Hogs are raised in nearly all parts of the United States east of the 100th meridian. The greatest number are found in Iowa and other States in the corn belt. The five leading States are: Iowa, Illinois, Missouri, Nebraska, and Indiana.

Live-stock markets.—The principal live-stock markets are Chicago, Kansas City, Omaha, East St. Louis, St. Joseph, Sioux City, St. Paul, Indianapolis, East Buffalo, Milwaukee, Denver, Fort Worth, Jersey City, Pittsburgh, Oklahoma City, and Cincinnati.

Shipping live stock.—Live stock represents a product that must be manufactured before being ready for consumption. Owing to the special kind of cars needed and the high freight rates, live stock is seldom shipped in less than carlots. In the center of the corn belt or on the Western ranges, the individual farmer or ranchman may be able to load one or more cars at a time. In the mixed farming sections of the Middle West, East, and South, the average farmer is unable to ship a car of either cattle, hogs, or sheep at one time. There is thus a problem of assembling at local shipping stations. This

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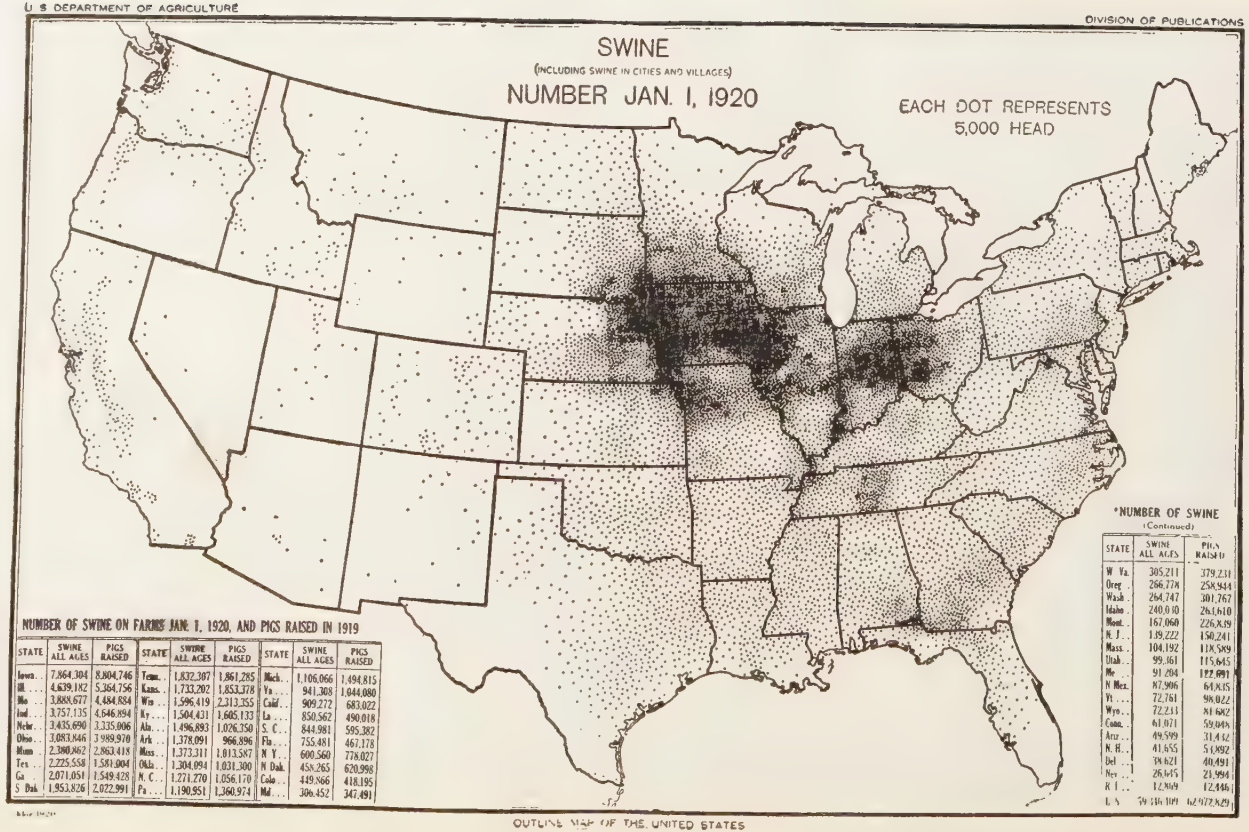

OUTLINE MAP OF THE UNITED STATES

NUMBER OF SWINE ON FARMS JAN. 1, 1920, AND PIGS RAISED IN 1919

STATE	SWINE ALL AGES	PIGS RAISED	STATE	SWINE ALL AGES	PIGS RAISED	STATE	SWINE ALL AGES	PIGS RAISED
Iowa	7,864,304	8,804,746	Tenn.	1,832,287	1,861,285	Mich.	1,106,066	1,494,815
Ill.	4,639,182	5,364,756	Kans.	1,733,202	1,853,378	Va.	941,308	1,044,080
Mo.	3,868,677	4,484,834	Wis.	1,596,419	2,313,355	Calif.	909,272	683,022
Ind.	3,757,135	4,546,894	Ky.	1,564,431	1,685,133	La.	850,562	490,018
Nebr.	3,435,690	3,335,006	Ala.	1,496,893	1,026,250	S. C.	844,981	595,382
Ohio	3,083,646	3,989,970	Ark.	1,378,091	966,896	Fla.	755,481	467,178
Minn.	2,380,262	2,863,418	Miss.	1,373,311	1,813,587	N. Y.	600,560	774,027
Tex.	2,225,558	1,581,004	Okla.	1,304,094	1,031,300	N. Dak.	458,265	620,998
Ga.	2,071,051	1,549,428	N. C.	1,271,270	1,056,170	Colo.	449,966	418,195
S. Dak.	1,953,826	2,022,991	Pa.	1,190,951	1,360,974	Md.	306,452	347,491

*NUMBER OF SWINE
(Continued)

STATE	SWINE ALL AGES	PIGS RAISED
W. Va.	305,211	379,231
Oreg.	266,778	258,944
Wash.	264,747	301,767
Idaho	240,010	263,610
Mont.	167,060	226,859
N. J.	139,222	150,241
Mass.	104,192	118,589
Utah	99,161	115,645
Me.	91,094	122,091
N. Mex.	87,906	69,835
Vt.	72,761	98,022
Wyo.	72,233	81,682
Conn.	61,071	59,046
Ariz.	49,599	31,442
N. H.	41,655	53,892
Del.	38,621	40,491
Nev.	26,645	23,994
R. I.	12,969	12,446
U. S.	59,516,109	62,972,829

assembling is often performed by a local buyer who visits the farms, buys the cattle, and drives them to the loading point or has the farmer drive them in. The 1920 census reports 30,464 buyers and shippers of live stock. In many parts of the country, coöperative shipping associations are now common. Such associations assemble carloads of live stock and ship to market. The operation of the local buyers is simple, as the live stock is generally consigned to a commission agent in the primary market. The coöperative associations often do not pay the farmers until the remittance is received from the commission man. The farmers have coöperative commission houses in some of the large markets which sell the cattle to the packers and others.

Grading of cattle.—The tendency is to ship the same kind of live stock in the same car, that is, fat steers, range cattle, lambs, or hogs. From mixed farming sections, however, cars of mixed stock are frequently shipped. Upon arrival at the large markets, live stock is further divided into classes and grades. The principal classes of cattle are: fat steers, Western range cattle, butcher stock, cutters and canners, stockers and feeders, veal calves, and milkers. Fat steers are ready for slaughtering and represent the best grade of cattle. They are divided into the following grades: prime, choice, good, medium, and common. Range cattle are grass cattle from the Western range States. These cattle are generally branded, and this distracts from their value because of injury to their hides. Formerly, range cattle were of a very "rangy" type, the "Texas longhorn" type. Since the introduction of blooded stock on the ranges the cattle are much improved, many of them being of excellent beef type. Butcher stock is ready for killing but is of poorer quality than fat steers. It is made up largely of fat cows, heifers, and bulls. The meat is used to supply the trade in small towns, and the medium-class trade in cities.

Cutters and canners are very inferior animals, consisting of cast-off dairy cows, bulls, and so forth. The cutter has sufficient flesh to permit the loin or rib being sold on the butcher's block. Canners are so thin that none of the carcass can be used for block purposes. They are used for canning or making sausage. Stockers and feeders consist principally of younger cattle. A stocker is generally used for grazing purposes and then

fattened, while a feeder is ready for immediate fattening. After being fattened, such cattle are returned to the market for slaughtering. Veal calves are generally of the dairy type which the dairymen do not desire to raise. They usually are sold when 6 to 12 weeks old and as a rule weigh between 100 and 200 pounds. They bring the highest price on the market. Milkers are cows and heifers of the dairy type which are sold for dairy purposes.

Prices of live stock.[12]—Based on Chicago prices from 1909 to 1918, the different grades sold for the following prices:

Class	*Price per 100 lbs.*	*Differential*
Veal calves	$10.20	.....
Fat steers	8.85	$1.35 under veal calves
Range steers	8.10	0.75 under fat steers
Stockers and feeders	6.65	1.45 under range steers
Fat cows and heifers	6.15	0.50 under feeders
Cutters and canners	4.35	1.80 under fat cows

The marketing of farm and other products.—The peculiarity of marketing farm products is the need of assembling. After such products reach the large distributing markets their marketing does not differ from the marketing of other products. In fact, most farm products are manufactured and reach the consumers as manufactured and not as farm products. Macklin uses data from the United States Department of Agriculture to show that 73.9 per cent of farm products are manufactured.[13] The principal products that require preparation for marketing are: live stock, wheat, cotton, wool, tobacco, hemp, flaxseed, sugar cane, sugar beets, and broom corn. A part of the following products become items of manufacture: milk, oats, rye, corn, barley, buckwheat, fruit, and vegetables. Farm products furnish the raw materials for the following types of factories: textile mills, clothing factories, flour mills, cereal plants, packing houses, tanneries, shoe factories, creameries, cheese factories, ice cream plants, tire factories, tobacco factories, breweries, candy factories, starch factories, canning factories, sugar refineries, and so on; and a part of the raw materials for automobile plants (rubber and leather) and paint factories (flaxseed for linseed oil). Some

[12]H. W. Vaughn, writing for The American Institute of Agriculture, "Marketing Live stock," lesson 2.

[13]"Efficient Marketing for Agriculture," p. 268.

goods are manufactured on the farm; for instance, farm butter and country-cured meats.

The principal farm products that are ready for consumption without being manufactured are: fresh fruits and vegetables, fresh milk, eggs, live poultry, hay and cereals for feeding live stock, nuts, honey, peanuts, and raisins. Certain of these products, however, undergo processes incidental to marketing that resemble manufacturing. Some of these processes are drying, cleaning, and packing raisins; cleaning peanuts; and pasteurizing milk. After reaching the distributing markets these products are marketed partly by specialized middlemen —produce jobbers, provision dealers, commission merchants, produce exchanges, brokers, fruit auctions, and hucksters; and partly by the regular wholesale and retail grocers. These types of middlemen, together with their various operations, are discussed in later chapters.

Important problems for solution.—The following are some of the most important problems in marketing farm products that exist today:

1. Making market analyses to determine what crops to grow, and when and how to sell them most advantageously to producer, consumer, and distributor.

2. Increasing the demand for products through a regular supply, adoption of better standards, packing in packages of more convenient size or better quality, advertising, and lowering prices to consumers through reducing marketing costs or reducing costs of production. Such methods cannot increase very much the total amount of food consumed, but they can increase the demand for agricultural specialties and higher priced goods. An increased standard of living means more money spent for food but not necessarily the consumption of more food. An increased consumption of meat and eggs means a smaller consumption of bread and cereals. A wider demand for fresh fruits and vegetables means a lower demand for meat and flour. One trouble with marketing foodstuffs arises out of the fact that the quantity grown depends to a large extent on the weather, while the consumers require about the same amount of food regardless of the weather. An aggravating factor here is that the jobbers and retailers in most cities fail to pass on low prices to consumers when there is a

"glut" in the wholesale market and so do not stimulate demand to utilize the surplus.[14]

3. Better storage facilities and feeding the markets more evenly throughout the year. This involves financial and storage problems.

4. Building up better marketing facilities or outlets in new sections. For example, a section may be well adapted to raising wool, potatoes, or cantaloupes, but since small amounts of these crops are now raised there, they cannot be marketed to advantage. The individual farmer can do little. It is a problem for a coöperative organization and perhaps for government or railroad aid for the first few years.

5. Improved quality of products, and better grading and packing.

6. Better transportation facilities.

7. Another problem of great interest to the farmers, although not directly concerned with marketing their own products, is that of increased merchandise efficiency in the distribution of merchandise ready for consumption. The farmers are consumers—they spend most of the money received for their products for various classes of merchandise. As consumers they have the same interest in improving marketing efficiency as their city brothers.

Bibliography

American Institute of Agriculture: *The Road to the Market*—a series of lessons on the marketing of farm products. It is hoped that this material, so far only available to members, will soon be within reach of all students of marketing.

Benjamin, E. W.: "Marketing Poultry Products," Chapters 2, 4, 6, 7, 8, and 11.

Federal Trade Commission: *The Grain Trade,* especially Vol. I.

[14] A typical case is reported in the *New York Times* of July 2, 1922. Watermelons were selling in Georgia for from 3 to 17½ cents apiece, in the wholesale market in New York for 32 cents, and in the retail stores for from 70 cents to $1.50, mostly from $1.00 to $1.50. If the retailers would reduce prices to their average profit basis, the consumers would eat many more melons. This would dispose of the melons and make for higher prices for the producers. It would benefit both the producers and the consumers and would mean increased business for the retailers. One reason given by the retailers for not following this practice is the trouble of explaining higher prices to the consumers when the wholesale prices advance.

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U. S. Department of Agriculture and various State Departments of Agriculture have published much information describing the marketing of the different farm products. See their bulletins and yearbooks or write them for information on the specific subject you are interested in.

Questions—Chapter III

1. Why must farm products be assembled? Is the assembling function done most efficiently in specialized or in mixed farming sections?

2. American farmers generally live on their farms. In parts of the old world they live in villages. One of the great problems of rural life has been the so-called "farm loneliness." This has been given as one reason why so many young people leave the farms. What effects have surfaced roads, automobiles, telephones, rural free mail delivery, the movies, and the radio had on farm life?

3. Draw diagrams showing how the following crops are assembled (middlemen involved and transportation methods): Wheat, eggs, milk churned by centralizers, potatoes, and live stock.

4. Why is butter made by creameries in Wisconsin and by centralizers in Kansas and Nebraska? What advantages does the creamery have? (See also Report of Federal Trade Commission on Milk and Milk Products, 1921, pages 58-69.)

5. Why is wheat handled in sacks on the Pacific Coast? (See also Report of Federal Trade Commission on the Grain Trade, Volume I, pages 25-30.)

6. What are the relative advantages to a farmer in contracting with a canning factory in the spring for the sale of all tomatoes grown at a stipulated price, and raising tomatoes without a contract and selling for the market price when tomatoes are ripe?

7. What are the chief problems in the marketing of farm products?

8. Explain the use of an order bill of lading. (See also footnote 19, Chapter 4.)

Chapter IV

TRANSPORTATION

The purpose of this chapter is to show the importance of the transportation facilities, the adequacy of our present equipment to carry the traffic, and to suggest improvements in the methods of handling goods, especially foodstuffs, during the marketing process.

Movements involved in transportation.—Transportation involves the moving of minerals from the place of extraction to the mouth of the mine and to the furnace or factory; the hauling of the farmer's crops to his barn, to the local elevator, creamery, or shipping station. The moving of raw materials from sawmill, oven, smeltery, mine, or from the farm to the factory, and from one factory to another, are phases of transportation. The shipping of finished products from farm or factory to local station or car, and from this point to city market, from car or boat to wholesale warehouse, from wholesale warehouse to retail store, and from retail store to consumer's residence are likewise part of the schemes. Then there are movements by wagon, tramway, flume, auto truck, railroad, steamship, canal barge, ferryboat, elevator, pipe line, belt conveyor, platform truck, human hand and shoulder, delivery wagon, and market basket. Movements over country roads, city streets, railroads, rivers, canals, and oceans are included. Transportation further involves the loading and unloading from wagons, trucks, and cars; placing on shelves, and in warehouses, piers, and coolers, and the removal from these places of storage for delivery to the buyers.

Number of movements illustrated.—The number of times a product is handled between the production of the raw material and the delivery of the finished product into the hand of the ultimate consumer, aside from the handling involved in manufacturing processes, may be illustrated by Cuban sugar. The cane is carried from the fields to the mill, which involves

loading and unloading from carts or railway cars or both. After being processed, it is packed in bags, piled in a warehouse, from the warehouse loaded on cars, hauled to port, piled on pier, loaded in ship, stored in hold, carried to an American port, unloaded, piled, lightered or otherwise transported to refinery, unloaded, and piled. After being refined, it is placed in bags or barrels, trucked to warehouse, piled, taken to cars, loaded in cars, hauled to jobber's warehouse, unloaded, piled in warehouse, loaded on trucks, hauled to retailer, and carried into his store. The retailer weighs it out and sells to the consumer. Either the retailer or the consumer carries it to the latter's residence where it may be handled several times more before it is consumed. Sugar is probably not handled any oftener than many other products. In handling goods so many times by human hands and mechanical devices, there is room for much waste because of unnecessary handling and poor methods or equipment.

Importance of transportation.—Much of modern civilization has been made possible by the development of the transportation facilities. Transportation has enabled all civilized communities to draw goods from all parts of the world. It has made available for our use a great variety of goods and has enabled different products to be drawn from the sections best adapted to their production. This allows different sections to specialize in the production of those commodities to which they are best adapted. To the consuming communities it means that they can purchase their supplies from the sections which can produce them the most cheaply. Having become dependent upon supplies from a distance, we now find a transportation system necessary to our very existence. Consider the results of a tie-up, if only for a few weeks, of the railroads serving any large American city.

Over 90 per cent of the food entering our large cities is transported in interstate commerce. It is estimated that the average distance between the producer and consumer of food in the United States is over 1,000 miles.[1] New York City

[1]Federal Trade Commission, "Wholesale Marketing of Food," page 188.

Students in the author's classes, at the University of Pittsburgh, in answering the first question at the end of this chapter, have prepared lists of the source of all foodstuffs consumed on one typical day. A tabulation of this information, using a simple average, showed that in October, 1922, the food was transported an average distance of 761 miles, while in February, 1923,

draws its supply of apples from 24 States, its white potatoes from 23, its cabbage from 16, its cantaloupes and peaches each from 15, its tomatoes from 13, its strawberries from 12, and its sweet potatoes from 8 States. Practically the same is true of all large cities. Sixteen of these draw their supplies of white potatoes from an average of 23.8 States, and their apples from an average of 16.8 States.[2] The wide sources from which a large city draws its food supplies may be illustrated by the origin of the white potatoes unloaded in Chicago during 1917.

Number of Cars of White Potatoes Originating in Different States, Unloaded in Chicago in 1917:

The West:		*The Lower South:*	
Wisconsin	2,463	Florida	389
Minnesota	1,194	Texas	379
Idaho	550	Louisiana	315
Washington	384	Alabama	86
Colorado	302	Mississippi	59
Michigan	274	North Carolina	22
California	241	South Carolina	13
South Dakota	197		
Illinois	166	*The Upper South:*	
Oregon	116	Virginia	1,223
North Dakota	49	Maryland	152
Iowa	34	Arkansas	143
Kansas	30	Kentucky	114
Missouri	24	Oklahoma	105
Nebraska	23	Tennessee	52
Indiana	21		
Montana	21	*The East:*	
Ohio	9	New Jersey	187
Utah	6	Pennsylvania	63
New Mexico	2	Delaware	2
		West Virginia	1
		Maine	1

Our transportation system.—To perform the transportation function there are in the United States approximately 1,250,000 motor trucks, about 25,000,000 horses and mules, about 66,000 locomotives with a total tractive effort of 2,382,000,000 pounds, about 2,500,000 freight cars with an average capacity of over 40 tons each. There are, in the

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the average distance was 883 miles. The lower figure for October is due to the fact that a considerable amount of local fruit and vegetables is on the market at this season. A weighted average based on the quantity of each item consumed would apparently reduce the average distance somewhat.

[2] *Ibid.*, page 48 and Map I.

United States, approximately 60,000 miles of pipe lines, about 3,000,000 miles of highway, of which about 15 per cent is surfaced. There are approximately 260,000 miles of railroad lines, having a total mileage including sidings and second, third, fourth, fifth and sixth tracks of 400,000 miles. The railroads moved 5,000,000 tons of freight in 1851; 72,500,000 tons in 1870; 583,000,000 tons in 1900; 870,000,000 tons in 1908; and approximately 1,400,000,000 in 1920. This shows an increase in the goods transported by rail of over 700 per cent in the 30 years from 1870 to 1900, and nearly 140 per cent in the 20 years from 1900 to 1920.

The railroads are generally considered the most important part of our transportation system although the cost of moving goods by human labor, by wagon, by motor truck, and by elevator is probably much greater than the cost of transporting goods by railroad. It has been estimated that it costs more to load a car of canned goods in Chicago than to move the car from Chicago to New York. Then there is the large cost of moving freight before reaching the rail or water terminals and after leaving the terminals. *The Railway Age* has estimated that the American people are paying more for automobiles than for railway transportation.[3] The money spent on automobiles, however, is largely for pleasure purposes and not for the transportation of goods.

During the War when the railroads had embargoes on many articles, the auto truck was used to move goods to the Atlantic seaboard from points as far west as Detroit and Chicago. Under normal conditions, however, the auto truck seems to be unable to compete with the railroads for long-haul business, say for hauls in excess of 100 miles. They have, however, taken a large part of the local traffic away from the railroads in thickly populated districts. For example, one study showed that approximately two-fifths of the freight between Akron and Cleveland was moved by truck. The truck's expenses may be higher than the freight rate but it can load and unload at store doors thus saving trucking expenses to and from freight stations. The answers to a questionnaire sent out by a committee of the New England Traffic League showed that in 50

[3]Rail revenues for 1919 were $5,200,000,000 while the depreciation and cost of operation of automobiles exclusive of cost of roads and accidents was estimated as $5,500,000,000.

per cent of the cases where the motor truck was used in New England the motor truck charge from door to door was less than the rail charge from station to station.[4] The truck rate between Philadelphia and New York is said to be little higher than the rail—less than the less-than-carload rate plus the trucking costs to and from the railroad freight houses on most articles. The motor truck also saves time and frequently does away with the need for crating the goods.

The airplane is a demonstrated success for carrying the mail. In 1922 the mail planes traveled 1,750,000 miles, carrying 49,000,000 letters without a fatal accident. There are, however, no indications of its use in the near future for carrying heavy freight. The motor truck apparently will supplement rather than displace the railroads. Much has been said in recent years of reviving traffic upon rivers and canals. So far, however, little has been done to transfer traffic from our railroads to our inland water carriers. It does not appear that any except the largest and most favorably situated of these water carriers are in a position to move goods cheaper than can be done by the railroads. The railroads then remain the backbone of our transportation system. Their adequacy for the task imposed upon them and their efficiency are of vital importance to all of us.

Adequacy of our railroad system.—During the World War the railroads were unable to handle properly the large quantities of goods offered for shipment. This has caused the public to ask if our railroad facilities are adequate to the needs of the country. They certainly did not adequately handle the traffic offered during the War, although for several years before the War they were, as a whole, able to move all goods offered with reasonable speed. The railroad plant should clearly be developed somewhat in advance of our other industries so that there will be, during normal times, an unused margin to take care of rapid increases in traffic caused by industrial prosperity or war. It is generally admitted that the roads are not now so developed, at least so far as terminal facilities are concerned.

Wastes and losses due to poor transportation facilities.—Our transportation facilities have apparently not kept pace with the expanding area of the markets and the increased quan-

[4] *Journal of Commerce*, March 5, 1921.

tities of goods to be transported. This inadequacy of facilities increases the cost of handling goods, involves delay and damage to goods, decreases the prices paid to producers, and adds to the cost of the goods to the consumers, as shippers and middlemen must increase their profits to cover the risks of loss, damage and delay.

High costs.—It has been estimated that $90,000,000,000 of commerce passed through our rail and marine terminals during 1919 and that about one-third of the cost of this commerce, or $25,000,000,000 to $30,000,000,000, was due to inefficiency and preventable wastes in handling between producers and consumers. Each middleman must add expenses (and profits) to cover the cost of moving goods from car to warehouse, wharf to truck, and so on. It is estimated that the railroads could save an average of 15 cents per ton if freight were handled by mechanical equipment, while many vessels could save as much more.[5]

Poor facilities in New York.—Many of our ports are not properly equipped. The situation is especially bad in New York for handling both domestic and foreign shipments. This city is trying to handle modern commerce by methods fifty years out of date. There are relatively few modern piers in New York harbor and almost none on Manhattan Island. Goods arriving by rail on the Jersey shore are taken across the river on car floats and delivered at railroad-owned piers on Manhattan Island or in Brooklyn. Most of the foodstuffs arrive on the lower west side, from which section they are carted to all parts of the city. The distances are so great to some parts of the city, as, for instance, the Bronx or Staten Island, that it often takes a truck the best part of a day to make one trip. New York consumes over 1,000 cars of fruit and vegetables per week. The sale of southern vegetables is held on piers 28 and 29, North River, early in the morning so that the goods can actually be on the retail stands the same day. Trucks often have to wait for hours, and even days to get into the piers. It is reported that wagons are sometimes smashed and horses killed in the rivalry for position. For hauling goods between the piers and stores on lower Manhattan, horse-drawn vehicles still predominate, as the

[5]Forst, Haywood: in *American Business & National Acceptance Journal*, May, 1920.

movement of traffic is so slow that there is no economy in the use of motor trucks. "The direct trucking expense under such awkward conditions is enormous, while the indirect consequences through delays and damage and stealage are perhaps even greater."[6]

Multiplicity of terminals increases cost of handling food.—New York City receives its supply of food over 9 railroads and 45 steamship lines. Chicago has 27 railroads, nearly all of which have their own terminals. Poultry alone arrives at 17 different terminals. The yards in Chicago are located from a quarter of a mile to two miles from the produce market on South Water Street. A large part of the perishable foods must be carted through the busy Loop district to reach the produce market and then carted to retailers in all parts of the city, or, if sold to out-of-town buyers, carted back across the Loop to the rail terminals. Over 180,000 cars of perishable foods reach Chicago annually, about half of which are reconsigned to other markets. This reconsignment often causes a delay of from 2 to 4 days to the cars and also adds to the congestion of an already crowded terminal district. In Minneapolis there are eight terminal yards located from 2 blocks to 2 miles from the produce market district. St. Paul also has eight yards and most of the produce has to be hauled to the dealers' stores. The perishable food for San Francisco is unloaded at eight places, all at a distance from the produce dealers. Norfolk has six railroad terminals and many wharves. Wichita, Kansas, has five terminals located from two to fifteen blocks from the produce market. A dealer on a given day may have cars arrive at several different terminals, which involves extra expenses for cartage, inspection, and so forth. A St. Louis poultry dealer, for example, has to send feed to two freight yards located in opposite directions and each five miles from his store. The average cost of carting fruit and vegetables from the rail terminals to the stores of the wholesale dealers in Chicago, Indianapolis, Detroit, Cincinnati, Columbus and Louisville, is equal to about one per cent of the gross sales of the dealers.[7]

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[6]Federal Trade Commission: "Wholesale Marketing of Food," pages 118, 119, and 214.

[7]*Ibid.*, page 126.

If all food arrived at one terminal near which the dealers had stores, a large saving would be made in cartage expenses. The damages resulting from cartage and hauling would also be reduced. Yet, if a joint terminal is not properly handled, no benefits may result. In St. Louis the terminal railroad is supposed to handle all cars and yet there is so much delay in switching cars to the tracks near the dealers' stores that many of the dealers truck their goods from scattered terminals, several of them across the river in East St. Louis. Oftentimes a merchant has a siding connected with one road and yet all shipments arriving from other roads must be carted, because of the delay in switching the cars. This is a common practice with the perishable-food dealers in Minneapolis, Cincinnati, Louisville, Kansas City, Providence and many other cities. Some dealers state that they might just as well not be located on any road, as most of the goods have to be carted anyway, and it is just as well not to be tied up with any one road.[8]

Delays.—Except in periods of severe congestion, of extreme weather, or of labor troubles, there is little complaint about delays in rail shipments during the movement between terminals. There is, however, serious complaint of delays in terminals. In Cincinnati, "if a dealer wants a car sent to a particular terminal either it is not sent at all, or if switched there is a delay of four or five days longer."[9] Similar delays of 24 to 48 hours are reported in Minneapolis and St. Paul; of 36 hours in getting cars from East St. Louis to St. Louis; and of 36 to 48 hours in getting cars placed in Louisville after they reach the west-end yards, if they happen to arrive at this yard. It is said to take as long to get a car over the belt line in Philadelphia as to get it to Philadelphia from Chicago.[10] The delays in the classification yards, and on the transfer tracks are often serious. It ordinarily takes several days to get a car through the Chicago terminal. Such delays not only tie up the capital of the shippers for long periods, but require more equipment on the part of the railroads, and result in heavy losses to perishable products, not to mention the extra cost of feeding live stock and icing refrigerator cars.

[8] *Ibid.*, pages 114-118, and 97-101.

[9] *Ibid.*, page 98.

[10] *Ibid.*, pages 97-100.

Perishable foods are sometimes delayed in transit for reconsignment. Shippers in the West and South commonly ship their goods before they are sold, expecting to sell them while they are "rolling," or to divert them to the market that appears to offer the best price. Goods from the South, for example, are commonly re-consigned at Potomac Yards (Va.), Cincinnati, Louisville, or Mounds (Ill.). As the prices of fruit and vegetables fluctuate widely from day to day and week to week in different cities, this practice tends to equalize the supply and protect the shippers. It does, however, delay cars, increase the congestion of terminals, and add to the spoilage of foodstuffs and should, therefore, be reduced to the minimum.

Damages to foodstuffs.—Damages result from delays in transit, from improper equipment, from improper loading or overloading, and from carting in unfavorable weather or over poor roads.

Delays in transit are estimated to cause a loss from 5 to 10 per cent of the amount of fruit handled. Strawberries are said to lose from $5 to $10 per car for every hour they are delayed beyond a certain length of time. The loss on a car of onions, potatoes, or watermelons may be as much as $100, if the car is two days overdue.

Improper equipment results in heavy damage to foodstuffs. Perishable foods that should be shipped in refrigerator cars are shipped in ventilated cars, and goods that should be shipped in ventilated cars are shipped in ordinary cars. When new potatoes are shipped in box cars and delayed in transit beyond four days, 8 or 10 barrels are rotted in each end of the car.[11]

It has been estimated that Spain lost $1,000,000 on Almeria grapes in 1920 because of the absence of proper ventilation during ocean shipment.[12]

There is also a serious loss due to lack of heated cars in winter. Freezing causes very heavy losses.

Overloading often causes serious loss to perishable foods. The air in the top of a refrigerator car is not cool, so that if foods are loaded above a certain point they will not be

[11]Federal Trade Commission: "Wholesale Marketing of Food," page 88.

[12]E. S. Godsell, Manager foreign fruit brokerage department of Fruit Auction Company of New York, writing in *Journal of Commerce*, January 24, 1921.

kept at the right temperature. For example, it is said that only four tiers of Georgia peaches can be protected in a refrigerator car, yet the minimum carload requires five tiers to be shipped, which means that the top tier arrives overripe and must be sold for 20 per cent less than is received for the peaches in the four lower tiers.[13] Overloading of green vegetables in poorly ventilated cars leads to overheating and sweating. Serious complaint is made against steamship companies for improper loading of perishable foodstuffs, such as the loading of fruit over sugar where it is damaged by the heat, or the placing of other goods on top of fruit and vegetables, thereby cutting off ventilation.

The damage from handling and carting goods is considerable. This is especially true where products like eggs must be carted over rough streets. Damage also results from exposing produce in trucks to excessive heat or cold. Eastern dealers report the loss of eggs due to breakage at from 5 to 10 per cent,[14] most of which is thought to occur during switching movements. The failure to keep refrigerator cars properly iced causes a heavy loss to fruit, vegetables, butter and eggs.

Messengers in charge of cars.—Some large fruit growers and shippers send messengers with their goods to see that they are properly cared for in transit. These messengers make sure that the cars are properly iced, that ventilators are opened and closed under the proper conditions, and attend to the stoves when the cars are in a cold area. They see that the cars are kept together, and upon arrival at destination they see that the goods are properly unloaded. It is stated that much of the damage to foodstuffs in transit is due to the fact that the railroad employees are ignorant of the proper methods of caring for the goods.

Small shippers are unable to provide their own messengers. The suggestion has, therefore, been made that the railroads provide special men, who are familiar with the handling of foodstuffs, to see that all cars of perishable food are properly handled. Such men could be stationed at loading, icing, diverting and unloading points, or could be sent with trains of perishable foodstuffs as seems best. At the loading points they should see that goods are properly cooled, iced, loaded,

[13] Federal Trade Commission: "Wholesale Marketing of Food," page 90.

[14] *Ibid.*, page 109.

and braced. At the icing stations they should see that all cars receive proper attention. At the diverting points all cars should be inspected and the owners advised if any are in poor condition so that they may arrange for a quick sale, at or near the diverting point. At the unloading points these special attendants should see that all cars are properly unloaded and the goods protected as much as possible from the weather. They might also act as inspectors to pass on the quality or grade of all cars involved in a dispute. Perhaps use of such would lessen damage to goods and hence cost of marketing.[15]

Car shortages are expensive.—Shortages of coal cars have been especially serious. Most mines have little or no storage space, so that when cars are not available the mines must close. This throws the miners out of work while the overhead expenses of the mining company go on just the same. Work at many mines has been very irregular. Cases have been reported of mines being able to operate only one, two or three days a week. As the miners must live seven days a week such conditions mean that the wage scale must be high enough to allow the miners to make a living in the number of actual working days. This increases the cost per ton of mining coal and results in high prices to the consumers or losses to the operator. A recent suggestion that has much to commend it is that coal mines be rated for the distribution of cars on a commercial rather than a physical basis. Under such an arrangement, the actual sale of coal over a long period would determine a mine's rating. Such ratings would tend to curtail operations in high-cost mines and allow the low-cost mines to operate more regularly and offer steadier work to their men.

Another serious result of car shortage is the irregular supply of goods delivered to the consuming markets, with the consequent wide fluctuations in price. When supplies are short, prices rise considerably. On this point Herbert Hoover, former food administrator, said: "On one occasion a study was made under my administration into the effect of car shortage in the transportation of potatoes, and we could demonstrate by chart and figure that the margin between the farmer and the consumer broadened 100 per cent in periods of car shortage. Nor did the middleman make this whole

[15]Federal Trade Commission: "Wholesale Marketing of Food," pages 104-106.

margin of profit, because he was subjected to unusual losses and destruction, and took unusual risks in awaiting a market. The same phenomenon was proved in a large way at times of acute shortage of movement in corn and other grain."[16]

Risks increase the margin between the producers and the consumers.—Each middleman who handles an article tries to obtain a profit to cover all the risks involved in the transaction. The greater the risks the greater the profits. When risks can be shifted by insurance or hedging, the dealers can include this expense in their costs; in which case there is no need to add profits to cover the possibility of such losses. When hazards cannot be shifted, the dealers must figure on larger profits so that reserves will be available to meet the losses. Prices are fixed in the central markets. Dealers buying goods for shipments to such markets must protect themselves by paying the producers less for their goods. For example, if a shipper of eggs knows that eggs are often broken in transit he protects himself by paying the farmers less for their eggs. Dealers handling goods between the central market and the consumer must increase their selling prices to cover such risks. The price paid to the producers is lowered or the price charged the consumers is raised to cover all the risks involved in marketing goods. It is, therefore, in the interest of both that the possibility of loss or damage from improper loading, poor equipment, rough handling, exposure to the weather, lack of proper storage facilities, delays in transit, or from irregular or fluctuating prices be reduced as much as possible. Future trading in many products is probably impractical, but great benefits should follow a better and more uniform grading of products, more careful packing, better terminal facilities, a more adequate supply of cars and a more even distribution of each product to the various consuming markets. This latter is especially important as it would tend to a greater uniformity in prices.

Our railroad system.—It has been shown in the foregoing paragraphs that our railroad system as now operated does not satisfactorily meet our needs at all times. In studying the railroad system and its operation to see what remedies should be adopted, it will make for clearness if the system be divided into its constituent parts.

[16]Writing in the *Saturday Evening Post*, April 10, 1920.

The railroad consists of: first, tracks connecting the cities, towns, and villages of the country; second, rolling stock—cars and locomotives—to move the traffic over these arteries; and third, terminal facilities, such as tracks and buildings, where cars are loaded, unloaded, classified, stored, and repaired.

Tracks.—There are some single-track roads which need double tracking, and some double-track roads which need third and fourth tracks. In certain sections of the South and West, new lines should be built to open up new territory. A former director general of the railroads gave it as his opinion that only one additional trunk line is needed—an east and west line to get around the Pittsburgh gateway. *The Railway Age* (January 2, 1920) has estimated that we need 6,000 miles of new line, 15,000 miles of multiple main track, and 30,000 miles of side and yard track. The need for building additional multiple main tracks can be eliminated to a large extent by electrification, which permits of a great increase of the tonnage which can be moved over a given road. The need for new branch lines has been partly removed by the use of motor trucks and buses. Many small communities are well served by these vehicles. In fact branch lines of the steam roads are having a hard time in competing with the electric interurbans, and the motor trucks and buses. Motor cars are being adopted by many roads for use on branch lines, since they are much cheaper to operate than steam trains.

Car shortages.—The inability of the railroads to handle the business offered by the shippers is commonly spoken of as a car shortage. By this is meant the failure of the railroads to furnish cars for loading when requested. It often happens that there is a shortage of cars in one section of the country and a surplus in another. During the fall crop-moving season the railroads in the West are often unable to furnish cars as rapidly as demanded for loading, while in the East the railroads may have a surplus of cars. When the total car shortage exceeds the total car surplus we have a net car shortage.

A car shortage generally occurs during periods of industrial prosperity, and especially during the fall crop-moving season. A car surplus generally occurs in times of industrial depression, and especially in the spring and early summer when the bulk of the crops has been moved and there is a temporary slackening in the demand for coal.

In the long run, car surpluses exceed car shortages. A car surplus means a loss to the railroads, while a car shortage often means a loss to the shippers. Yet the railroads are public utilities and the shippers feel that there is just as much obligation on them to furnish facilities to carry the peak load as there is on other public utilities. This of course does not mean that efforts should not be made to equalize the load throughout the year. The providing of warehousing and financing facilities in the farming States to allow farm products to be stored at the local shipping points, instead of in the large cities, is a suggestion worthy of careful study. Another suggestion is that the movement in coal be stimulated during the summer by a differential rate. For example, the freight rate on coal could be made 15 per cent less on all coal moved in March to August inclusive, compared with the rest of the year. This would encourage storing by the users of coal, and would tend to equalize employment in the mines and do away with the heavy seasonal movement of coal by the railroads. When it is considered that about one-third of all the tonnage moved by the railroads consists of coal, the importance of equalizing its movement throughout the year is easily seen.

The net freight car shortage amounted to 149,865 cars on February 6, 1907; 114,908 cars on November 1, 1916; 146,070 on September 1, 1920; and 175,100 on November 1, 1922. On the other hand the net car surplus amounted to 413,388 on April 29, 1908; 327,084 on April 1, 1915; 450,000 in March 1919; 495,781 on April 1, 1921; and 237,343 on December 22, 1923.

Motive power.—A car shortage often is said to be an engine shortage in reality. Often-times the cars are ready to be moved but no locomotives are at hand. When traffic is heavy the engines often are overloaded and break down, especially in cold weather. The repair shops can not keep up with their work and many locomotives are out of use awaiting repairs. The size of the locomotive has increased greatly during the last 25 years. The average tractive effort, a measure of pulling capacity, of our locomotives increased from 27,000 pounds in 1910 to 35,500 pounds in 1920, while the average train load has more than doubled during the past 20 years, averaging now more than 600 tons of revenue freight.

Larger train loads reduce labor costs, as fewer train crews are needed; but increase the cost of building and maintaining tracks to carry the heavier trains.

The steam locomotive is a wasteful machine, although recent mechanical improvements have greatly increased its efficiency. More efficient motive power may come in the future from the electric locomotive; the turbine locomotive, perhaps using mercury in place of water; or perhaps a Diesel locomotive.

Where a freight car spends its time.—Mr. L. F. Loree, President of the Delaware and Hudson Co., has compiled figures showing the distribution of the time of the freight cars of the country during 1910.[18]

Distribution of the Time of Country's Freight Cars

	Days per trip	*Per cent of time*
Road movement (10 miles per hour)	1.49	10.0
Road delays	0.15	1.0
Movement through intermediate yards (3.57 per trip)	1.55	10.4
Interchanges between railroads	2.48	16.7
Movement between terminal yards and loading and unloading tracks	1.74	11.6
Surplus cars	0.75	5.0
Repairing of cars	1.34	9.0
Total responsibility of railroads	9.50	63.7
Loading and unloading	4.00	26.8
Delays due to "reconsignment," bill to order, etc.	0.50	3.4
Delays due to 52 Sundays and 10 holidays per year	0.90	6.1
Total responsibility of shippers	5.4	36.3
Total average time to move a load of freight	14.9	100.0

A study of these figures indicates that the need of the country is not primarily for additional running tracks as cars spend only about 11 per cent of their time in actual train movements. Increasing the speed of freight trains would not help a great

[18]Loree: "Railroad Freight Transportation," page 264. The Bureau of Railway Economics prepared similar figures for 1918. This was such an abnormal year, however, that the older figures are believed to be more typical of present conditions. The figures for 1918 are as follows: Road movement, 10.9%; road delays 3.8%; total time in road trains 14.7%; movement through intermediate yards 9.7%; interchange between railroads 3.4%; and movement to and from loading and unloading tracks 9.7%, abnormal delays 27.1%. Total responsibility of railroads 64.6%. Total responsibility of shipper (loading, unloading, and delays) 35.4%.

deal. Switching occupies 38.7 per cent of the time, more than is occupied in loading and unloading, and three and one-half times as much as is taken up by the road movement. The cars spend over 50 per cent of their time on terminal and yard tracks, aside from the 35 per cent spent there in loading and unloading. In studying methods of improving our transportation system, special attention should be given to our terminals and to methods of reducing the time now occupied in switching movements. It is significant to note that in 1918, when the railroads were operated as one system, the time taken to interchange cars between railroads was only 0.61 days per trip compared with 2.48 days shown in the above table. It is hard to see how time lost due to a surplus of cars can be reduced except by distributing the transportation load more evenly throughout the year. More than 200,000 cars have ordinarily been out of use owing to the need of repairs. A reduction of this figure to 100,000 would be equivalent to building 100,000 additional cars.

Over one-fourth of the country's cars are constantly at the command of the shippers for loading and unloading. A reduction of the time allowed for loading and unloading might mean a hardship for business enterprises. Shippers are generally allowed 48 hours free time, counted from 7 a. m. of the day after the car is placed, that is to say, spotted. If a car is not loaded or unloaded in 48 hours, a charge called demurrage is levied. This free time might be reduced to 36 hours and an allowance paid to shippers who release the cars in 24 hours. In the past there have been plenty of penalties for those who are slow in releasing cars but no rewards for those who attend to the matter in less than the allowed time. The interest and depreciation on a car averages from 50 to 75 cents a day; and if the car is standing on a railroad siding in a large city, the interest and taxes on the space occupied probably amount to even more. A freight car occupies about 400 square feet. Space alongside for loading and unloading may amount to more than this in the case of team tracks, or to less when alongside a loading platform or warehouse. A freight car "spotted" for loading or unloading then requires 600 to 1000 square feet. If $10 per square foot be assumed to be the average value of land in the down-town sections of large cities, the value of the land occupied by a car would be

from $6,000 to $10,000. Then tracks must be built. The interest and taxes on this land and tracks, and the cost of maintaining the tracks would be from $2.50 to $4.00 per day, Sundays and holidays excluded. The value of some of the land used as freight terminals in the larger cities is said to run as high as $50 per square foot.

Would it not be good policy for the railroads to encourage the prompt release of cars by allowing from 50 cents to $1.00 for cars released within 24 hours, instead of spending the money for new cars? Allowing cars to be reconsigned, diverted in transit, and shipped "to order,"[19] is of great value in handling many classes of goods. If these privileges were discontinued, the result would probably be a great burden on certain commercial interests. These practices might, however, be lessened by increasing the charges for them.

Remedy in better movement of cars.—From the foregoing discussion it is evident that improvement is more likely to come from a better use of the cars already in existence than from the building of more cars which would congest our terminals still further. The average capacity of our freight cars is 41 tons, but the average load is less than 30 tons. An increase of one ton in the average load would be equivalent to buying 100,000 new cars. Loree[20] has shown that if all cars were loaded to 65.56 per cent of their capacity, as was done in 1918 (the record year), and moved 26.9 miles per day, as was done in 1916 (the record year), we would have had in 1919 the equivalent of 444,064 new cars—an increase of 18 per cent.

To increase the minimum carloads would in some cases impose a burden on business concerns, by forcing them to carry heavy stocks or buy in less than carloads. For instance, large carloads often mean large inventories and slow turnovers for merchants. As it is, the difference in rates between carload and less-than-carload freight forces them to order goods in carlots. Coal cars are now frequently loaded be-

[19]In this case the draft is attached to bill of lading. The buyer of the goods goes to the bank, pays the draft, and gets the bill of lading. He then notifies the railroad to deliver the car. This device serves as a C. O. D. in the shipment of freight. Loree states that 85% of grain and grain products, 90% of hay and cotton, and 95% of automobiles are shipped in this way. See Loree: "Railroad Freight Transportation," page 310.

[20]"Railroad Freight Transportation," page 279.

yond their rated capacity. The loading of many bulky commodities, such as machinery, furniture, hay, and green vegetables, cannot be increased. In fact the statement has been made that the minimum load now requires more produce to be placed in refrigerator cars than can be kept properly cooled. Therefore, increases in minimum loads would have to be placed largely on certain classes of manufactured goods and farm products.

Pooling of cars.—The suggestion is often made, that the most efficient way to use our cars would be to pool them. For example, have all freight cars owned and repaired by one central agency and used on an equal basis by all roads. Objections are made to this plan, especially by the roads owning many cars. Space prohibits a full discussion of the subject, but the plan has much to commend it. For instance, empty cars could be moved in any direction and not be subject to the present limitation of being moved only toward the home (owning) road. Less time would be lost in transferring from one road to another, although the low mark (3.38 per cent of time) reached in 1918 could not be expected with the roads operated separately. Less shifting from one road to another would minimize the cost of repairs. A definite responsibility for distributing cars to the sections needing them most in case of a car shortage, and less temptation to favor the big shippers or shippers at competitive points in the distribution of cars would be two further advantages. Also, if all special cars, such as refrigerator cars, now privately owned, were included in the pool they could be diverted to the most useful purpose and sent to the sections where they were most needed. At present private cars are subject to the orders of their owners, which condition, at times, gives these people advantages over other shippers. Empty mileage is also exceptionally large with private cars, as they are so frequently returned empty to their owners.

Less-than-carload freight.—Only about 4 per cent of the total freight of the country moves in less-than-carload lots, yet to move this less-than-carload freight requires approximately 20 per cent of all our cars. This is due to the small number of tons (8 to 12) carried per car. It appears that the more of the short-haul less-than-carload business that is taken over by the motor trucks, the better it will be for the

railroads. Some roads have realized this and are having package freight for nearby points moved between their freight houses by motor trucks over the public highways.

A new device for handling less-than-carload freight that seems to offer great possibilities, is the container. The container is a steel bin which is loaded or filled on the shipper's platform or in his warehouse, hauled to the railroad on a motor truck, and swung or pushed on to a flat car. At the destination it is removed from the car and hauled to the receiver's place of business to be unloaded. Some advantages are: a saving of car time; a saving in the handling of packages by railroad at point of origin, point of destination, and intermediate freight houses; the lessening of pilfering; a saving in the cost of packing and crating goods; and, to the shipper, a lowered freight rate. The principal disadvantage is the high initial cost of installation. The United States Government is using these containers for the transportation of mail. The New York Central Railroad has placed them in commercial service between a limited number of cities. The saving in freight is shown by the following figures:

Freight Rates between New York and Buffalo[21]

Weight	*Regular class rates (L. C. L.)*		*Container rate*
	First class	*Third-class*	
3,000 pounds (minimum for container).....	$23.85	$16.50	$15.33
7,000 pounds (maximum for container).....	55.65	38.50	24.09

It is to be hoped that if these containers come into general use, they will be owned by a central agency or by the railroads and not by private shippers.

The terminal problem.—The railroad problem may almost be said to be a terminal problem. We have seen that cars spend about 50 per cent of their time on terminal tracks or yards aside from the 35 per cent used in loading and unloading. Yards are often called the "graveyards" of cars. We have seen that the need is for a better use of cars rather than for building more cars to further congest our yards. The terminals consist of transfer (classification and storage) yards and tracks, loading and unloading tracks (private and railroad), freight houses, and running tracks. The railroad facilities in most of our large cities were obtained years ago when

[21]Greater New York, October 30, 1922. Some people think that these containers offer the proper solution for moving less-than-carload freight.

the cities were smaller. The railroads have been unable to expand them to keep up with the traffic demands of the ever increasing populations. The present high value of city real estate makes it extremely expensive to provide additional close-in space for tracks. The facilities for loading and unloading cars at industrial plants are also inadequate in many cases. A survey of the situation on the Delaware & Hudson Railroad showed that the shippers were short 50 per cent of the facilities needed to load and unload their business promptly.[22] This situation is said to be due to disagreement between the railroads and shippers as to the responsibility for providing the necessary sidings. The shippers believe that it is the railroads' duty to provide such sidings, while the railroads believe that it is the duty of the shippers. The result is that neither provides adequate facilities. Perhaps adequate sidings are provided when a factory is built but later when the factory is enlarged the sidings remain the same or may even be shortened to make room for more buildings. A clear definition of who is responsible for providing industrial sidings should help this situation.

Suggested remedies for terminals.—The transportation of local freight and passengers by motor vehicles transfers a part of the short-haul business to the highways and helps to ease the burden on the railroad tracks. This loss of business is, however, not always welcomed by the railroads, especially as they are taxed to help build and maintain the highways. More tracks are needed but the difficulty of securing space was shown above. Better mechanical devices for loading and unloading cars would aid in their quicker release by the shippers. The central wholesale markets for foodstuffs proposed in the following chapter would aid in the prompt release of many cars and would in certain cases release for other purposes some tracks now used for foodstuffs.

The substitution of motor trucks with removable bodies, for trap cars for transferring less-than-carload freight between freight houses in the same city saves the use of cars and tracks and is much quicker. In Cincinnati, for example, 15 motor trucks with 225 bodies have replaced 225 trap (freight) cars and 115 horse-drawn vehicles and move the freight much more economically and in a fraction of the time formerly required.

[22]Loree: "Railroad Freight Transportation," Chapter 5.

Store-door delivery.—Store-door delivery is also proposed for less-than-carload freight. Under this system the railroads, or licensed transfer companies, would collect and deliver freight as is now done by the express companies. Such a system would reduce congestion in the streets and at the freight houses, as trucks would ordinarily be loaded to capacity; whereas, under the present system, shippers' trucks often call for or deliver only a few packages. Store-door delivery would also reduce the size of the freight houses needed, as the goods would be loaded into cars as soon as collected and delivered as soon as unloaded. This system is used in England and eastern Canada. A free store delivery was for many years used in the down-town sections of Washington, D. C., and Baltimore, Md. It was discontinued in these cities as a result of a ruling of the Interstate Commerce Commission that it was unfair to give it to some and not to all residents. The railroads discontinued the service rather than furnish it free in all parts of these cities.[23] St. Louis now has a voluntary or optional store-door delivery. Many studies have been made with a view to the general installation of this plan. So far, however, such practical difficulties as handling brokers' goods, bill-to-order shipments, and the fear of the railroads that they would be forced to furnish this delivery free and bear the extra cost themselves have prevented its introduction. Once in operation it would probably meet with general favor.

Coördination of facilities.—Whatever reduces transportation delays, which occur mostly in the terminals, and leads to a quicker delivery of goods, reduces the amount of unproductive capital tied up in merchandise in transit. This is a direct aid to the efficient use of capital. The transportation facilities and marketing districts of many cities are poorly located for handling present-day commerce. This is due largely to the rapid growth of cities and to the geographical expansion of urban districts made possible by electric cars and motor transportation. It has been pointed out that it is very difficult for the railroads to secure additional space for tracks or freight houses in congested city districts. By making the motor truck an ally, it is, however, possible to locate the freight houses outside the down-town congested districts. It has been estimated

[23]Banham, W. J. L.: "Can't We Carry Freight to Your Door?" *Nation's Business*, November, 1923.

that the saving in taxes and interest by moving freight houses out of the very valuable locations in the centers of large cities to cheaper outlying districts would more than pay for trucking the freight the extra distance. Store-door delivery with motor trucks using demountable bodies seems to fit in with such a scheme.

In many cities, the wholesale market districts might with advantage be moved to better locations. Delay due to trucking in crowded city streets is a serious handicap to marketing operations in many cities. Relief from present conditions by widening streets, building electric freight tunnels, providing subways for the street railways, or better routing of traffic will help to reduce transportation costs. Motor traffic has grown so rapidly during the past twenty years that the cities have not had time to provide facilities and develop plans for handling it expeditiously.

In developing terminal facilities, an effort should be made to provide adequate transportation and storage facilities and to coördinate the operation of steam roads, motor trucks, electric interurbans, storage warehouses, manufacturing plants, and wholesale stores.

In the past a large part of the farm products has been stored in the primary or jobbing markets. This has been due in part to the need for special facilities, notably for goods requiring cold storage, but perhaps in greater part to the farmers selling their crops as soon as harvested. The development of coöperative organizations which have adopted a policy of storing their products and feeding the markets evenly throughout the year may increase the percentage of farm products stored on the farms or at local shipping points. Storage at points of production will tend to distribute more evenly throughout the year the transportation burden on the railroads, will enable goods to be stored where land is cheaper, and, by keeping them scattered, will lessen the danger of loss by fire, flood, or earthquake. On the other hand it may mean that goods are stored at points where it will be more difficult and expensive to finance them. In any event the large cities should always have enough goods in storage to care for immediate needs and to safeguard against any unexpected transportation delays.

Serious delays occur in the classification yards. The rail-

roads should give their attention to lessening such delays by the introduction of new methods, or the improvement of methods now in use. Longer engine runs, the making up of through trains which move through several yards in such a way that they will not have to be broken up, and new methods of switching cars may all help to reduce the time spent by cars in classification yards.

Unified operation.—A suggestion that has much to commend it is that all the terminal facilities within each of our large cities should be operated as a unit by a terminal company, and not by the separate railroads. It must not be supposed that such unified operations would work miracles or make inadequate facilities adequate. It should, however, reduce the time required to transfer cars from one road to another, to collect cars loaded on a siding of one road for shipment over a second road, and to deliver cars arriving over one road and billed to a siding connected with the tracks of another road.

Consolidation of railroads.—Plans are now being formulated for consolidating the American railroads into some twenty or thirty large systems. The question of consolidation has not been discussed in this chapter for the reason that it is extremely doubtful whether such consolidations, even if made, would increase the efficiency with which our roads are operated. These consolidations are proposed for rate-making and financial purposes rather than for the purpose of increasing operating efficiency. Similarly nothing has been said of the question of government ownership or operation, since the operating results to be expected are so debatable.

Water transportation.—Transportation on our rivers and canals was formerly important, but declined greatly owing, in part, to the greater efficiency and lower rates of the railroads and in part to unfair methods of competition used by the railroads. A great deal has been said in recent years about reviving traffic on our inland waterways.

Unquestionably water transportation should be used where it is cheaper than rail transportation. The cost of building or improving and maintaining the waterways should, however, be considered. It is unfair to think only of the operating costs. The railroads must consider the interest on their properties and on their maintenance costs. Because waterways

are provided and maintained by means of taxation is no reason for overlooking these costs. It is illogical to tax ourselves to provide waterways unless the saving in transportation charges will amount to more than the taxes. Such taxes should be repaid from tolls. Water transportation is adapted only to moving low-grade commodities in bulk. Our government, in response to laws passed by Congressmen wanting money spent in their districts, has tried to improve rivers unsuited to navigation and located in districts where there was no traffic suited to movement by water. Arrangements should be made to freely interchange traffic between the railroads and water carriers and to develop and utilize fully waterways where goods can be moved on them more cheaply than by rail. To do more is to tax ourselves for the political benefit of a few men or the local pride of certain communities.

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Questions—Chapter IV

1. Make a list of everything that you eat for one day and place opposite each item its source, *e. g.,* coffee, Brazil; sugar, Cuba, and so forth. In case you cannot ascertain the actual source of certain items, take the State that leads in production, or, if the article is imported, the foreign country that leads in exports to the United States may be taken as the probable source. In the case of manufactured items, show the origin of the principal raw material or materials.

2. Is our railroad system adequate for our needs? What suggestions can you make for improving it, especially for handling freight?

3. How can the terminal facilities of our large cities be improved? If you live in a city of over 100,000 population, you may answer this question with reference to your own city.

4. What is meant by a car shortage? Can car shortages be prevented? If so, how? If not, why?

5. Would it be desirable to increase minimum carload ratings in order to secure a larger average carload? Discuss.

6. What are the advantages and limitations on the use of steel freight containers? Since the motor truck movement is an expensive movement, should such containers be built primarily to fit the motor truck and as large as can be transported in various parts of the country by motor trucks? Since the providing of cranes at all stations for loading or unloading them is so expensive, what do you think of having the trucks fitted up to roll them on and off, which can be done provided the cars and platforms are the same height as the motor trucks?

7. What should be the sphere of our inland waterways in our transportation system?

8. What should be the sphere of the motor truck in our transportation system? Some of the factors to be considered are: the heavy wear on highways and the consequent heavy cost of building and maintaining them for trucks; the small load per driver, say two to five tons, compared with an average of over 100 tons for each member of a freight-train crew; the fact that local trains use the tracks an unreasonable amount of the time for the revenue which they earn, and hamper the movement of through trains; and the high cost of building and maintaining railroads.

Chapter V

STORAGE

Storage involves the keeping of goods from the time they are produced until they are consumed. It includes storage in the farmer's barn, granary, cellar; or the banking of vegetables and fruit in the ground. It also includes storage in the warehouses or yards of mills, factories, mines, and stores; in cold storage plants, grain elevators, merchants' shelves, and consumers' pantries.

Importance of storage facilities.—It was pointed out in Chapter I that the keeping of goods from the time they were produced until they were needed for consumption (the creation of time utilities) was just as necessary to the satisfaction of human wants as was the original production of goods.

In recent years there has been a tendency for dealers and manufacturers to carry just as small stocks of goods as will permit the uninterrupted conduct of their business. When transportation facilities are dependable, this is generally good business policy. It is, however, necessary for someone to carry the goods which are produced only at certain seasons of the year until they are needed by the consumers. The heaviest egg production comes in the spring, and it is very important that the surplus be stored for use during the following winter when the production is very low. The heaviest milk production also comes in the spring and summer, and it is very desirable that the surplus milk be made into butter or cheese, or evaporated, condensed, or powdered and stored, for use later in the year. The season for some vegetables, such as potatoes, is spread over a considerable length of time by drawing supplies from different latitudes. There remains, however, a period of several months from the end of the Northern digging season until adequate supplies are received from the South. Potatoes must be stored for use during this season. Nearly all farm products are harvested in relatively short periods. Cotton, wool, wheat, oats, corn, barley, rye, tobacco,

hemp, and so forth, must be stored to secure a uniform consumption throughout the year. Seventy-one per cent of the wheat sold by the farmers is marketed during four months —July, August, September and October. Eighty-five per cent of the boxed apples are placed in cold storage for a shorter or longer period. Some of the farm products require special storage facilities, such as heated, dry, or cooled space.

Many other products are stored for considerable periods of time. This is done with Lake Superior iron ore, for example, which is transported on the Great Lakes. As navigation is closed on the lakes during the winter, sufficient supplies must be carried at the lower lake ports and in the mill yards to keep the furnaces in operation during the winter months. The Northwest gets its coal supply largely by lake, so that the winter supplies must be received at the upper lake ports before the navigation season closes.

Some products must be stored for a considerable period of time before they are ready for the market. Lumber is often allowed "to season." Smoked meat, cheese, tobacco, and hides, are examples of products that need a certain time for curing. Manufacturing processes, however, in many instances have reduced the time necessary for curing.

Goods must also be stored to equalize the supply over the consuming area. This is one of the primary functions of the wholesale dealers. Many goods also should be stored for relatively short periods because of irregular or bunched arrivals. Thus the supply of peaches, cantaloupes, tomatoes, or any other similar product arriving in a given city may be very large one day and very small a few days later. Serious loss occurs when proper storage facilities are not available to store such products for short periods.

It is apparent from these facts that producers and consumers are both vitally concerned with storage facilities. When these are inadequate to meet properly the needs of the community, losses occur which tend to increase the prices to the consumers or decrease the prices to the producers.

Influence of storage on prices.—The storing of goods tends to equalize prices throughout the year. Without storage facilities, the price of seasonably produced goods that can be successfully stored would be very low in the producing season, causing a loss to producers, and very high in the off season,

causing many consumers to go without the product. Hibbard[1] gives a very good illustration of this with butter prices before and since the introduction of cold storage warehouses. Elgin prices, which were the basic prices of the country until the Elgin board was closed, were used during both periods.

Five-year periods	*Average of the low spring prices*	*Average of the high winter prices*	*Percentage of fluctuation between high and low prices*
1880-1884	19¼¢	42¼¢	120
1910-1914	24½	36½	49

Storage undoubtedly is the principal cause of the smaller fluctuations in recent years. Other causes, however, should not be overlooked, such as the more scientific feeding of cows, made possible, in part, by the use of ensilage.

Many charges have been made that goods have been stored in order to manipulate prices. It is supposed by some that prices are unreasonably low during the producing seasons when the goods are purchased by speculators and stored to hold for unreasonably high prices later on after the goods have left the producers' hands. This supposition is based on the idea that such speculators secure a corner or a monopolistic control of prices. Perhaps this has been done in some instances but it is very difficult for one person to obtain a corner in any staple product, or for several persons to act jointly to control prices, and it must also be remembered that any such joint action is illegal.

The owner of stored goods takes a risk. The prices may go up more than the cost of storage, may go up less than the cost of storage, or may go down. In the first case the owner makes a profit while in the other two he realizes a loss. Except where hedging is possible, he cannot shift the risk of price changes. Comparisons of the prices of typical farm products over periods of years show that the average prices prevailing during the summers were just about enough higher than prices prevailing during the previous autumns to cover the carrying charges.[1] This would indicate that fluctuations are due to supply and demand factors existing at different times rather than to manipulations by the owners of stored goods enabling them to obtain exorbitant profits. An increase in the storing

[1]B. H. Hibbard: "Marketing Agricultural Products," Chapter 8.

of goods would tend to greater stabilization of prices. A factor limiting the increase in the storage of goods, however, is the fact that many people prefer fresh goods, even at much higher prices. For example, some people will pay a much higher price in January for fresh, green beans than for dry, or canned beans. From this it may be seen how transportation companies are at times competitors of storage warehouses or canning factories.

Effect of storage on quality.—Some products, such as grain or wool, can be stored for long periods with little or no deterioration in quality. Other products, such as strawberries or milk, can be stored only for relatively short periods without total loss. Between these extremes there are many products, such as meat or eggs, that can be stored for fairly long periods without serious deterioration in quality. Much prejudice exists against cold storage foods and several States have laws fixing the maximum length of time that goods can be kept in storage and then sold for food. It goes without saying that if certain foodstuffs can be kept in storage only for certain periods without becoming unfit for human consumption, that they should not be allowed to be kept for longer periods. This is a question for the food experts. It seems, however, that the quality generally depends more on the condition of the goods when they go into storage, on how they are kept while in storage, and on how they are handled after leaving storage, than on the length of time they are kept in storage. For example, egg dealers point out that an egg may deteriorate more during one hot summer day in the nest, or in the farmer's kitchen, than during several days in a cold storage plant. An egg may be kept several weeks out of storage and still be sold for fresh, while if kept the same length of time in storage it must be sold as a cold storage egg. Eggs laid during cool, spring weather and placed in storage in good condition may be much better when they come out than eggs reaching the city markets later in the season as "fresh." Quality can then apparently be controlled better by inspection than by setting arbitrary limits on the length of time that goods can be stored.

Where should goods be stored?—Goods may be stored at point of production—on the farm or in the mill or factory; at local shipping points; in the large primary and jobbing mar-

kets; in the stores of the local jobbers and retailers; or in the homes of the consumers or the plants of the users. Several factors should be considered in determining where they can be stored to best advantage. Who is to assume the risk of price changes or physical deterioration? Where are the best storage facilities available? Which point will equalize the transportation burden on the railroads throughout the year? How can the consumers be assured a dependable supply of goods? Where can the goods be inspected most cheaply? Where can money be borrowed to best advantage?

If the producers are to assume the risk involved in carrying the goods from time of production to time of consumption, either individually or coöperatively, the goods are likely to be stored close to the point of production, although they may be stored in rented space in the large markets. If the wholesale dealers assume the risk, they are more likely to be carried in the wholesale markets.

Other things being equal, goods should be stored where the best facilities are available. This may often mean the central markets, especially where cold storage is required. In order to distribute the burden on the railroads more evenly throughout the year, more farm products should be stored on the farms or at local shipping points, while more coal should be stored in factory yards or household bins. The nearer products are stored to the consumers, the better the consumers are protected from shortages. The question of economical inspection should also be considered. This is important where the inspectors' reports are necessary as a basis for loans with which to carry the goods. Goods can be more economically financed while in storage where money is plentiful and cheap. All of these factors should be considered in deciding where goods should be stored. From a public viewpoint, the question may be asked as to whose duty it is to store goods from one season to another. This is a broad question. At this point, we will only note that under the present market organization the task of storing many products seems to devolve primarily upon various types of wholesale middlemen and manufacturers, although the farmers, through their coöperative organizations, are assuming a larger part of this burden in order to stabilize or secure higher prices.

Storage facilities.—To provide facilities for performing

the storage function, many warehouses, cold storage plants, and elevators have been provided by manufacturers, merchants, railroads, and warehouse companies. A few figures will help us to appreciate the magnitude of the facilities that have been provided already, and yet they are not always adequate to the needs of the country.

The 30,000 country elevators and warehouses have an average capacity of over 25,000 bushels. This makes a total capacity of 750,000,000 bushels of grain. The terminal elevators have a total capacity of over 260,000,000 bushels.[2] In 1913 there were in the United States, 3,485 cotton warehouses with a capacity of nearly 14,000,000 bales, aside from the warehouses of the cotton mills.[3]

The total amount of cold storage space in the United States is shown by the following figures:

Refrigeration Space in the United States[4]

Warehouses	*Number*	*Cubic Feet Capacity*
Public cold storage warehouses	334	169,362,490
Packing houses doing a public cold storage business	24	29,858,119
Public and private warehouses	216	45,304,945
Packing houses	440	236,191,285
Private cold storage warehouses	268	16,243,326
Total	1,282	496,960,165

There are 1,327 branch houses of interstate slaughtering houses, all of which have cooler space (rooms cooled with ammonia brine).[5] In spite of all the facilities that have been provided, there is, however, in many parts of the country, a shortage of the proper kind of storage space. The Federal Trade Commission, as a result of an exhaustive survey of the food marketing methods and facilities, has reported that many of our cities do not have adequate cold storage space for perishable foodstuffs.[6]

Public warehouses.—Public warehouses are generally privately owned, but are subject to regulation by the States. They hold themselves out to store certain types of goods

[2]Federal Trade Commission, "Report on Grain Trade."

[3]Duncan, C. S.: "Marketing," Chapter 8.

[4]Bureau of Markets, U. S. Department of Agriculture.

[5]Federal Trade Commission: "Report on Meat Packing Industry," Part IV, page 32.

[6]"Wholesale Marketing of Food," pages 137-142, 246 and 259.

under certain conditions. When goods are stored with them a warehouse receipt may be issued which carries title to the goods. The owner of this receipt freqently takes it to the bank and pledges it as security for a loan. On a staple commodity the banks will often loan a large percentage of the market value of the commodity. In this way the capital needed by the owner of the goods is reduced and the carrying of such goods made fairly easy. The cost for storage space, insurance, and interest is relatively low and can be calculated when the goods are stored. The owner thus knows how much the market must rise to make his venture profitable. It is said that wheat can be carried in this way for about one-half cent a bushel per month and eggs at one-half cent a dozen per month. This method of financing is often used in carrying grains, butter, eggs, cotton, beans, staple groceries, and many other products.

Government-supervised warehouses.[7]—The Federal warehouse Act was passed in 1916 and amended in 1919 and 1923. Under this act operators of privately owned warehouses are permitted to apply for Federal licenses to store a limited number of farm products. If they and their warehouses meet the conditions required by the act, they may receive licenses. On December 31, 1923, the capacity of such licensed warehouses was: 2,566,104 bales of cotton; 33,819,983 bushels of grain; 25,645,000 pounds of wool; and 348,399,000 pounds of tobacco. The reason for storing goods in such licensed warehouses is to secure readily negotiable receipts. Goods can be stored in warehouses licensed by the States, but in many cases the receipt is little more than a memorandum, as it often does not state the grade or condition of the goods. State supervision and inspection is often said to be superficial so that the receipt is not considered the best collateral by the banks. This is especially true when the receipts do not cover staple products such as grain or eggs. When the goods are stored in warehouses supervised by the United States Department of Agriculture, the receipt states the grade according to Government standards, so that it is more readily negotiable. These Government-licensed warehouses receive many requests to store other products, especially manufactured goods such

[7]This paragraph is based largely on an article by James True in *Printer's Ink*, of February 21, 1924.

as lumber, automobiles, steel casings, and so forth. This suggests the need of extending the system to aid the manufacturers, who apparently are coming to carry a greater part of the country's stock-load. The question is also raised as to how many manufactured products are sufficiently standardized to allow of inspection and the issuance of warehouse receipts guaranteeing definite grades.

Non-fungible and fungible goods.—In most cases the owner receives from the warehouses the identical goods, but in other cases where the product is standardized the owner receives only the same number of units of the same grade as he delivered to the warehouse. This is commonly done with grain. Such goods are known as fungible goods and may be mixed with the same grade of similar goods. This practice is permitted for economy. It would be very expensive for a grain elevator to keep each lot of grain separate. Such a requirement would practically mean that grain would have to be handled in sacks.

Adequacy of storage facilities.—A few years ago a great deal was said about the lack of adequate storage facilities in the West and South necessitating the shipment of farm products as soon as harvested. This caused a serious bunching of traffic on the railroads and often resulted in slow movement of goods, and car shortages. If the railroads could not move the goods promptly, serious damage resulted from exposure to the weather. When storage space was not available, the farmers were forced to sell at once regardless of whether the price was satisfactory or not. To overcome these difficulties many storage buildings have been provided and much less is heard of the lack of proper storage facilities in the producing sections. Facilities for the handling of perishable foodstuffs are, however, still inadequate at shipping points.[8]

Adequacy of cold storage facilities in various cities.—The Federal Trade Commission in 1918 made a study of the adequacy of the cold storage facilities in several American cities. The branch houses of the large meat packers generally are properly equipped with cooler space. There is, however, a serious shortage of cold storage space for other perishable foodstuffs in many cities. The facilities were reported to be ample in Birmingham, Ala.; Seattle, Wash.; Chattanooga,

[8]Federal Trade Commission: "Wholesale Marketing of Food," pages 86, 87.

Tenn.; Hutchinson, Kan.; Richmond, Va.; and Witchita, Kan.; but in the two last named cities the warehouses were poorly situated. The facilities were reported inadequate in Philadelphia, Pa.; Boston, Mass.; Harrisburg, Pa.; Norfolk, Va.; Jacksonville, Fla.; Pensacola, Fla.; Houston, Tex.; San Antonio, Tex.; and Wilmington, Del. The facilities in the last two named cities were also reported to be of very poor quality. Wilkes-Barre, Pa.; Savannah, Ga., and Knoxville, Tenn., were reported to be entirely without cold storage facilities available to the produce dealers. Charleston, S. C., was in the same position except that some of the dealers had small coolers of their own. In Pittsburgh the cold storage warehouses were located at a distance from the produce market, but seemed to meet the needs of those who desired to cart their goods the necessary distance. New York and Chicago had adequate facilities prior to the War, but were unable to handle properly all the goods needing storage during 1918. Buffalo had adequate space but suffered from high rates and an arbitrary management by a monopoly. Boston also suffered from high rates and arbitrary rules. The plants in New York and Boston had no rail connections so that all goods had to be carted to the warehouses.

Wastes due to poor storage facilities.—Fruits and vegetables are often carefully gathered, graded, packed, and carried to the city markets under refrigeration, where they are unloaded and handled with little or no protection from the weather. Large amounts of produce are lost thereby. During extremely cold weather the loss from freezing is very heavy. Often-times goods must be kept in the cars until the weather moderates. This causes serious delay to the cars. Perishable foods discharged from vessels to unheated piers suffer a serious loss from freezing. Whole cargoes are sometimes lost in this way. In January, 1918, it was estimated that $500,000 worth of foodstuff was destroyed in New York City as the result of freezing. In Pittsburgh the loss from freezing is estimated at 10 to 15 per cent in zero weather. "Every year millions of dollars' worth of fruits, vegetables, and eggs throughout the country are partially decomposed in refrigerator cars without ice as well as upon docks and freight floors."[9] In many cities the stores of the produce dealers are

[9] *Ibid.*, pages 102, and 123-24.

old and inadequate for present needs. Goods must be piled on the sidewalk, in the street, or sold from truck or railroad car. Coolers are often lacking. Inadequate storage facilities undoubtedly cause serious damages, not the least of which arise from inability to store goods for short periods when there is a glut in the local market.

Serious losses are reported in other products. The country's cotton loss has been estimated as high as $75,000,000 per year. There is also a serious destruction of grains and many other products, a loss which could be materially lessened by proper storage facilities.

Inadequacy of facilities for marketing foods.—It is apparent, from what has already been said, that the facilities for handling foodstuffs are inadequate, in face of the present needs in many places. Many of the city market districts are extremely congested, without rail and water connections, and not located near the centers of the populations which they serve. Conditions are worse in some cities than in others. The situation is more serious in Chicago and New York than in some of the smaller cities. For example, Hutchinson, Kan., is reported to have ample facilities.[10] Goods often must be carted from rail terminals over congested streets, to the produce markets and then after being sold are often carted back to the terminals for out-of-town shipment or past the terminal for delivery to the retailers. One expert has estimated the needless waste at the South Water Street market in Chicago at $5,000,000 a year. The buildings are often old and poorly adapted to their needs. The rents are also frequently high. Proper warehouses are often lacking. The market facilities in many cities have not developed rapidly enough to keep up with the increase in population.

Remedy for Situationin Terminals: Central Wholesale Markets

One of the remedies proposed to meet the present unsatisfactory methods of handling foodstuffs in the city terminals is the establishment of central wholesale markets. The Federal Trade Commission has recommended that such markets be established in the cities and larger towns by the Federal Government and operated by individuals under gov-

[10]Federal Trade Commission: "Wholesale Marketing of Food," pages 118 and 142.

ernment supervision.[11] According to their proposal the handling of all foodstuffs received by rail or boat would be centralized in one large market in each city. These markets would be strategically located and properly equipped with all physical facilities for properly unloading, handling, and storing all foodstuffs reaching each city. In the larger cities one market might be needed for handling fruits and vegetables, another for dairy and poultry products and a third for staple groceries, if the latter were included in such a system. New York and Chicago might need two or more such markets for handling each of these three classes of products. Such markets need not necessarily be owned by the government, for they could be built by private or transportation companies. A certain amount of government supervision is, however, advisable, although there is a considerable difference of opinion as to the proper extent and direction of such supervision.

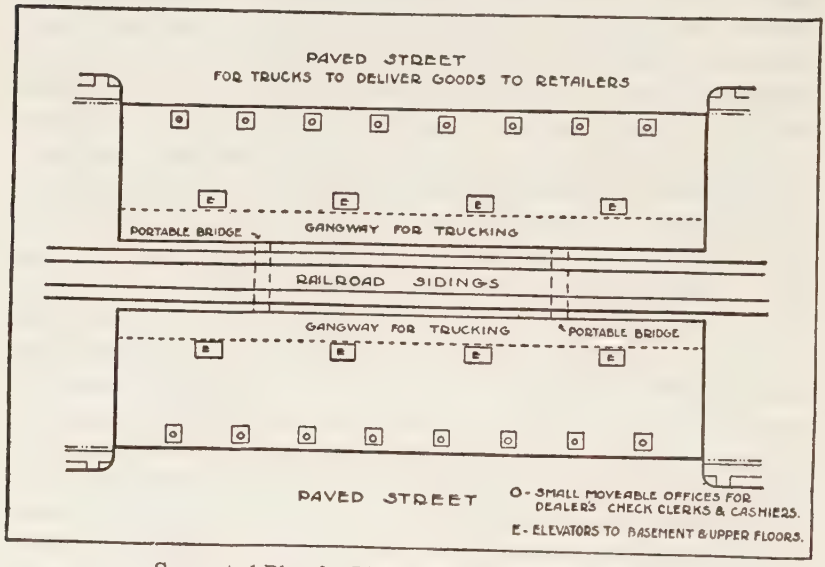
Location.—Such a market should have direct connection with all rail and water lines entering the city and should be easily accessible to the retail stores. It would be impossible to secure ideal locations in some cities, but locations superior to those of the present produce markets could be found in many cities. Adequate buildings should be constructed providing protected platforms for unloading the goods and floor space for the transaction of business by the dealers. Both heated and cold storage space should be provided in the basement and on the upper floors. Coolers could also be provided on the first floor for the daily needs of the dealers. Auction rooms and office space for the various dealers should be located on the second floor. Space in this market would be rented to all dealers on an equal basis and at reasonable rates. The rents in some of the present produce markets are said to be exorbitant. One authority has estimated the excess rent paid by two hundred firms in the South Water Street market in Chicago at $720,000 a year.[12] The goods would be unloaded at night when the first floor would be closed to the dealers. The market would be opened at a fixed hour in the morning. A suggested plan for the first floor of one unit of such a market is presented in the chart on page 100. This is to furnish only a general idea of such a market, as the details

[11] *Ibid.*, pages 18-24, and 185-195.

[12] *Ibid.*, page 147.

of size and arrangements would vary with the size of the city, nature of space available, and so forth.

In this plan two railroad tracks are placed in the middle of the unit. On each side of the tracks is a passage way or alley, for use in trucking goods from one part of the market to another. Alongside these aisles or passageways, elevators are


PAVED STREET
FOR TRUCKS TO DELIVER GOODS TO RETAILERS
PORTABLE BRIDGE
GANGWAY FOR TRUCKING
RAILROAD SIDINGS
GANGWAY FOR TRUCKING
PORTABLE BRIDGE
PAVED STREET
O - SMALL MOVEABLE OFFICES FOR DEALERS CHECK CLERKS & CASHIERS.
E - ELEVATORS TO BASEMENT & UPPER FLOORS.

Suggested Plan for First Floor of Proposed Central Wholesale Produce Market

placed at convenient distances for carrying goods to the different floors. On each side of the passageways, and occupying the greater part of the first floor, is the space for the dealers. Here their goods are placed at night and here they transact their business during the day. This space is pooled for the fruit and vegetable dealers and not divided by partitions, thus permitting it to be utilized to better advantage. This seems advisable because the various dealers receive different quantities of goods on different days. Each dealer would, however, have his goods placed in the same part of the market regularly. On the sides opposite the tracks are paved streets for trucks carrying outgoing goods.

Outbound rail shipments.—Cars are left on the tracks during the day to be loaded with goods for shipment to other places. Enough cars are removed to permit gangways to be

thrown across the tracks at every two or three car lengths. In this way, passageways are formed between different parts of the market. Goods can easily be trucked from all parts of the market for loading into these cars which are intended for small wholesalers who buy goods in the market and ship mixed cars. That is, they make up a car of several articles, for example, apples, oranges, lettuce, cauliflower, cabbages, etc. In a large distributing market the cars might have to be "pulled" in the afternoon and a second bunch placed for loading. Cars to be reconsigned to other markets should not be unloaded but should be left on outside tracks for inspection. The dealers would notify the market management before the arrival of cars as to whether they wished them unloaded or reconsigned. Smaller consuming markets would not need facilities for large outward rail shipments.

Proper public regulation.—The Trade Commission proposes that all dealers be required to secure Federal licenses before being permitted to do business in these markets. Under the terms of these licenses no dealer would be permitted to engage in any unfair practices, to charge unreasonable prices, to make unreasonable profits, to be both buyer and seller in one transaction, or to engage in any activities to manipulate prices. It is also proposed that any shipper may consign his products to the manager of the market, or to the supervising government agent, who will have them stored, if necessary, and sold at auction or by a commission merchant and see that the proper return is made to the shipper. Some persons object that the regulation proposed is too drastic. In any case, a certain amount of government supervision is generally admitted to be necessary, as, for example, in grading and inspecting goods; settling disputes between buyer and seller, and between dealers where no provision for arbitration exists; in seeing that the market is kept in a sanitary condition; in gathering and publishing figures showing the amount of goods on hand and in transit, and the prevailing prices; in supervising activities of commission merchants; and in seeing that the market is operated efficiently and that all dealers receive fair treatment. The proposal that all shippers be enabled to ship to the market with the assurance that they would receive fair treatment is a good one.

Advantages.—Such central wholesale markets possess many

advantages over the present system. Among the advantages might be enumerated: saving of perishable foodstuffs by unloading on a closed platform protected from the weather; saving of foodstuffs by having proper storage space at hand; saving of foodstuffs now lost owing to cartage from cars to store, and from store to cars when goods are being shipped to out-of-town buyers; saving of carting expense, the only carting required being from wholesaler to retailer, and from retailer to consumer; lessening speculation by equalizing the supply of adequate storage facilities, thus making for more uniform prices; saving time of buyers by having all wholesalers in one location; saving demurrage charges and releasing cars more promptly because of a quicker unloading by one management; shortening trade channels as the retailers would buy directly from the wholesale receivers; lessening unfair trade practices and unreasonable prices and profits by government regulation; preventing monopoly and securing coöperation of all factors engaged in the wholesale marketing of foods; securing efficient operation by retaining competition and the incentive of private profits; and lowering the cost of handling foods by efficient equipment and adequate facilities. Such markets should lessen the cost of marketing foods and so lower prices to the consumers and raise prices to the producers.

Limitations.—These markets would cure only a part of the evils. Need would still exist for improvements in packing, loading, and transporting goods to the city markets. Such markets would not materially alter retailing methods, although some advocates propose that retail markets be included in the plans alongside the wholesale markets. Retail markets might be desirable if space were available, but they would benefit principally the consumers living near the markets.

Difficulties in establishing central wholesale markets.—It would be hard in many cities to find locations large enough for the purpose, capable of being easily connected with all rail and water lines entering the city, and centrally located for distributing goods to the retail dealers. The location should be not only large enough for present needs, but also large enough to permit expansion in the future. The establishment of such markets would involve a considerable capital outlay. It is argued further, that it would be unfair to property holders in the old produce-market sections to bodily move

the markets to new sections of the city. Much of the opposition to the establishment of such markets comes from the property owners in the old sections, who fear that much of the value of their property would be destroyed as no other tenants could be found who would pay equal rents. A real disadvantage of such markets is that in case of destruction of the market buildings by fire or other disaster, the food supply of the city would be seriously imperilled while the buildings were being replaced.

Establishment of central wholesale markets for foods.— The establishment of central markets has been considered in many cities.[13] A subsidiary of the Southern Pacific Railroad has constructed adequate physical facilities in Los Angeles, but this market has connection with only one railroad system. The Wabash Terminal in Pittsburgh (Pittsburgh and West Virginia Railroad) provides facilities along the plan outlined above for the Pittsburgh butter and egg wholesalers, but there are three rather serious criticisms of this terminal. First, it has connections with only one road and this road extends only to the West, and does not have the best of connections; second, there is no room for expansion to take care of increased business; and third, the coolers in this building take care of only the short-time needs of the dealers, so that goods to be stored for a long time must be carted to warehouses in other parts of the city. A market has been provided at Atlanta by three railroads where most of the dealers are located. The Linden station in Memphis provides facilities for eight wholesale grocers and one produce dealer, but this leaves most of the perishable food dealers outside this station. The fruit and vegetables arriving in Philadelphia over the Pennsylvania Railroad are unloaded on a platform in West Philadelphia. Here the carlot receivers sell to the jobbers. This platform is scarcely adequate for the present needs of the city, and does not provide space for the jobbers, so that most of the produce is carted across the city to their stores. None of these facilities fulfills the conditions prescribed for public central markets as regards public regulation and connection with all transportation lines. Most of the produce dealers are in favor of central markets having adequate facilities, but, of course, differ regarding the details

[13]At this writing, under serious consideration in New York City.

and the amount of public supervision that is desirable. It is to be hoped that such markets will be established by private or public capital. Undoubtedly better facilities would already have been provided in many cities except for the financial difficulties resulting from the World War.

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Questions—Chapter V

1. Why is our system of handling foodstuffs so expensive?

2. What has refrigeration meant to our cities? To our farmers? What does it mean to you?

3. What are the essential principles of the proposed central wholesale markets? Enumerate advantages and disadvantages.

4. If you live in a city, would the establishment of a central wholesale market for foods be practical in your city? If so, what would be its advantages? If not, why?

If you live in the country, how would the establishment of such markets in the cities help or injure your community?

5. What effect does storage have on prices? Is it true that adequate storage facilities cause the farmers to receive less for their products than they otherwise would? Does the storing of goods raise the prices to the consumers?

6. What effect does cold storage have on the quality of the goods stored?

Chapter VI

TRADE CHANNELS

Classes of middlemen.—The four principal classes of middlemen are: country shippers, brokers, wholesalers, and retailers.

Country shippers.—Country shippers are those who buy goods from the farmers, assemble them into carlots and ship to the primary markets. The operations of some of these shippers were discussed in Chapter III. The organization and operation of farmers' coöperative organizations are considered in Chapter XXI. The live-stock shippers, the grain elevators, buyers for carlot receivers, country merchants, and farmers' coöperative exchanges are typical of country shippers. It should be noted that many rural merchants act as country shippers. These merchants are in business to sell consumption goods to the farmers but the purchase of farm products is often an important part of their business. Such merchants operate on both sides of the central markets, and are engaged in both assembling and dispersing goods.

Brokers.—Brokers are discussed in Chapter IX. Under the general head of brokers may be included those middlemen who operate on a commission basis without owning the goods and generally without having possession of the goods. Under this general head are included middlemen called brokers, sales agents, selling houses, buying agents, export commission houses, manufacturers' representatives when not employees of the manufacturers, and some of the commission men.

Wholesalers.—The term "wholesaler" is here used to mean dealers who purchase goods to be sold to other dealers. Under this general designation are included wholesalers, jobbers, export merchants, coöperative jobbing houses, mail-order jobbing houses, sub-jobbers, and some commission merchants. Manufacturers' branch houses may also be included. Some wholesale dealers handle full lines of products, while

others specialize in one or two articles. Some deal only in carlots while others sell in small quantities. The operation of wholesale dealers is discussed in Chapters XII and XIII.

Retailers.—There are many kinds of retailers. The grocery store, the mail-order house, the soda fountain, the cross-roads store, and the large city department store are all retailers. Retail stores may be grouped, for purposes of study, in many ways. They may be divided into stores handling shopping lines and stores handling convenience lines. The shopping stores handle principally "style" goods and goods of large value for which people will shop (look around, compare qualities and prices, and to which they give considerable thought before purchasing). Convenience goods consist largely of staples and goods of small value which people are inclined to buy at the most convenient places, often the places where they happen to be when the desire arises. Each class of merchandise gives rise to distinct problems.

For our purposes, however, the best division seems to be: unit stores, department stores, mail-order houses, and chain stores. Unit stores are stores owned and operated independently. They are also called independent stores, generally being managed by their owners, and are characterized by limited capital and small buying power. General and specialty stores are typical unit stores. Department stores and mail-order houses do most of their business in shopping lines. The chain-store organization operates a number of separate stores. It is generally characterized by large purchasing power and economical and efficient merchandising methods. The operation of retail stores is discussed in Chapters XIV, XV, XVI, and XVII.

Special Types.—Special types of marketing organizations are auctions, produce exchanges, and coöperative and trade associations. These are discussed in Chapters X, XI, XX, XXI and XXII.

Trade channels.—Under the present system of market distribution, merchandise ordinarily passes through the hands of one or more of these middlemen between the producer and the consumer. The various middlemen who handle an article between the producer and the consumer constitute the trade channel or route. Different articles of merchandise are marketed in different ways, or pass through different trade chan-

nels, while the method of marketing any article changes from time to time as a result of changed economic or social conditions.

Producer direct to consumer.—The shortest trade channel is followed when goods pass direct from the producer to the consumer.

Producer - - - - } Consumer

In a primitive society this method is in common use, the different members of the tribe or village exchanging directly the products of the soil, of the chase, or of the craftsman's art. Many articles still pass directly from producer to consumer. In the smaller towns and cities the farmers often sell their fruits and vegetables direct to the consumers. This is done to a limited extent upon the public market even in the larger cities. In the smaller cities the dairymen often operate the milk wagons and sell their milk and butter direct to the consumers. It is not improbable that in a small city one distributor could deliver the milk more cheaply than is possible when each dairyman operates his own wagon. Many factories market their output by mail direct to the consumers. This policy ordinarily involves heavy advertising expenses. It appears that direct selling is sometimes as expensive as selling through middlemen, but many manufacturers have adopted direct selling because they have failed to secure a satisfactory volume of business through the middlemen.

Many manufacturers buy their supplies direct from the producers. For example, machine and automobile manufacturers very often buy their steel direct from the steel mills. Factories often dispose of their product to the consumers through salesmen. These salesmen may be canvassers who solicit business from house to house or they may be salesmen soliciting orders for large machines, such as dynamos or printing presses. The salaries and expenses, or commissions, of such salesmen are an expense of marketing, but technically such salesmen are not middlemen.

Another example of goods being sold direct to the consumers by the producers is furnished by the ice manufacturers who often place the ice in the domestic refrigerators.

Some manufacturers have their own retail stores and sell to the consumers through them. These stores involve all the problems of retail store management. Such stores are limited

in number and, although owned by the manufacturers, should preferably be considered as separate middlemen.

One middleman.—The next shortest trade channel is followed when the goods pass through the hands of one middleman between the producer or consumer.

Producer - - - - } Middleman - - - - } Consumer

This is the channel which many goods follow today. Many factories supply their goods direct to the retail dealers, as is common with shoes and clothing. Chain stores and department stores often buy goods direct from the producers. Milk often passes through the hands of only one middleman between the farmer and the city consumer. The same is sometimes true of coal. Mail-order houses often buy their goods direct from the factories and sell them to the consumers. The large mail-order houses, however, are coming to manufacture a large part of their own goods.

Automobiles often pass through the hands of only one middleman, aside from the manufacturers' branch assembling plants—the "agent," or "distributor." The same is true of oil and gasoline.

The manufacturer with a large or "full" line of goods will more often sell direct to the retailer than will the specialty manufacturer, who produces only a few items. The expense of a salesman handling many articles can be divided or spread among the several items, while all the expense of salesmen handling only one article must be borne by this one article. In the latter case the expense may be so heavy that it is unprofitable to keep the salesman on the road. Thus a manufacturer of a full line of farm implements sells direct to the retailers through his branch houses, while the manufacturer of a single implement or class of implements sells through jobbers.

Two middlemen.—A very common trade channel is followed when the goods pass through the hands of two middlemen between the producer and the consumer.

Producer - - - - { Broker..... / Wholesaler..... / Branch house..... / Commission Man..... } Retailer - - - - } Consumer

This channel is often considered the most typical channel for the distribution of merchandise in the United States. The

staple merchandise lines, groceries, hardware, drugs, and dry goods, are generally said to pass through the hands of wholesalers and retailers. As a matter of fact, such goods frequently pass through the hands of at least three middlemen between the manufacturer and the consumer. The chain and department stores, however, often eliminate one middleman, the wholesaler, and purchase their goods from the manufacturer through brokers or sales agents.

The large meat packers and farm implement manufacturers commonly have their own branch houses and sell to the retailers through these branches. Sometimes branch houses are owned outright and sometimes they are separately incorporated and controlled through stock ownership. Perhaps from a legal viewpoint, a branch house owned directly by the manufacturer should not be considered as a separate middleman. Such branches, however, involve a separate capital outlay, a separate force of employees, and compete directly with independent wholesalers. As they perform similar economic functions and incur the same kind of expenses as the wholesalers, we may ignore the ownership and consider such branches as separate middlemen. In districts where a manufacturer does not have his own branches, he often sells through independent jobbers. This is done by the meat packers and farm implement manufacturers. The latter may "job" their goods through other manufacturers' branch houses. Thus a manufacturer of tillage implements may handle a grain drill made by a second manufacturer, a wagon made by a third manufacturer, and so on. A full line of implements is thus secured, and as they are all handled by the same sales force the expense of handling each implement is reduced. It also enables the specialty or short line manufacturers, who cannot afford to maintain a large number of branches, to market their product. Shortline producers are sometimes forced out of business because of their inability to secure a satisfactory volume of sales from other manufacturers or from independent jobbers.

Farm products, such as fruit, vegetables, and poultry products, are sometimes consigned[1] by the farmers to city commis-

[1]Shipped by the owner to an agent to be sold on a commission basis; title to the goods remaining with the shipper until sold by the agent or commission man.

sion men who sell them to the retail dealers. This is a common practice in some cities, for instance, in Philadelphia and Cleveland, where large quantities of produce from nearby producing sections are handled in this way. The consignment method of marketing produce has, however, generally fallen into disrepute and is not now in general use.

Wholesale produce dealers at times send their buyers into the producing sections and buy produce from the growers, which they resell to the city retailers. In this case the produce passes through the hands of three middlemen.

Three middlemen.—The next longer route is followed when the goods pass through the hands of three middlemen:

Producer { Broker..... / Sales Agent..... / Buying Agent... / Local Buyer..... } Wholesaler or Jobber { Retailer - - - - } Consumer

Very commonly, merchandise, such as staple groceries, dry goods and hardware, passes through the hands of a broker, selling agent, or buying agent, before it reaches the wholesaler. Canned foods, for example, are packed principally by small canners who cannot afford to maintain elaborate sales departments. The same is true of many grocery specialties. For this reason they commonly employ brokers to market their goods or turn their entire output over to a sales agent to sell for them on a commission basis. The brokers or sales agents sell to the wholesalers.

The wholesale hardware dealers handle thousands of different articles made by hundreds of different manufacturers. It would be a difficult task for them to keep in close touch with each of these manufacturers and to follow the daily price fluctuations for each article. Consequently we find the wholesalers employing buying agents to purchase their supplies. These agents represent several wholesalers and it is their business to keep in close touch with the manufacturers and with market prices.

The textile mills are largely occupied with production. Many of these mills are small or specialize in a few kinds of cloth. For these reasons they often turn the marketing of their cloth over to sales agents, or brokers. In the woolen industry the selling or commission houses, which really control the mills, and the selling agents, who are financed by the mills,

market most of the cloth.[2] Raw cotton generally passes through three hands between the grower and the mill: country buyers, shippers, and dealers.

Farm products are often bought from the farmers by local buyers and resold by them to the city wholesalers. These local buyers may be local storekeepers, independent local buyers, producers' coöperative selling organizations, or special buyers from the outside. If the local buyers are employees of a wholesaler who sells to the retailer, there would only be two middlemen between producer and consumer, but in some markets the wholesaler, or carlot dealer, sells to the jobber, who sells to the retailer. In this case the produce passes through the hands of three middlemen before reaching the consumer. If, however, the wholesaler bought from an independent local buyer, the produce would pass through the hands of four middlemen.

Four middlemen.—A still longer trade channel is found when the goods pass through the hands of four middlemen between the producer and the consumer.

Producer	Sales Agent	Broker	Wholesaler	Retailer
	Local Buyer	Broker	Jobber	
	Local Buyer	Wholesaler	Jobber	
	Importer	Broker	Wholesaler	
	Local Shipper	Auction	Wholesaler	

Many manufacturers of groceries and dry goods have their products marketed by sales agents. These agents often do not maintain organizations in other cities and depend on brokers to place the goods with the wholesalers.

The local buyers of farm produce often effect sales through brokers who are in touch with the wholesalers. In some city markets such produce passes through the hands of two middlemen before reaching the retailers—the carlot receiver, or wholesaler, and the jobber.

Fruits (especially citrus fruits, grapes, and boxed apples) are sold at auction in many cities. The growers' association ships such goods to a local agent, or to their own salaried representative, who has them sold at auction. The buyers are, as a rule, wholesale dealers, for the reason that the minimum quantity sold is generally too large for a single retailer to handle. This makes four middlemen—growers' selling

[2]Cherington, Paul T.: "The Wool Industry," chapter 7.

association, auction, wholesaler, and retailer. Wholesalers (or carlot dealers) also frequently have the auction sell such of their fruits as it handles. The auction is not the owner of the goods and acts as agent for the representative of the growers' association, or for the wholesale dealer. In either case, the fruit passes through two hands between the local shipper and the retailer, unless the retailer buys at the auction. (See Chapter XI for a fuller discussion of the auction method of selling.)

Imported goods.—Goods produced in one country and consumed in another often pass through the hands of more middlemen than if consumed in the country where produced. It is not, however, the purpose of this book to deal with marketing methods outside of the United States. Imported goods, after reaching this country, pass through channels similar to those followed by goods of domestic origin. Imported foodstuffs may be bought from importers by brokers in New York for wholesale dealers located in interior cities. Such goods then pass through the hands of four middlemen in the United States—the importer, the broker, the wholesaler, and the retailer.

Variation in methods of distribution.—The foregoing are some of the more common channels followed by goods on their way from the producers to the consumers. There are, however, a great many variations in the channels and little uniformity exists in distributing the same article. For example, 50 per cent of the shoes are sold direct to the retailers by the manufacturers, 42 per cent are sold to wholesalers and jobbers, 2 per cent are sold direct to the consumers, and over 5 per cent are sold through stores owned and operated by the manufacturers.[3] The same manufacturer may in some sections of the country sell direct to the retailers while in other sections of the country he sells through wholesale dealers. Other manufacturers may sell to both jobbers and retailers, some sales being made directly and others through brokers. Some manufacturers claim to sell only to jobbers and yet sell the large chain and department stores on the ground that such stores buy in large enough quantities to deserve the wholesale price. Some manufacturers adopt a policy of marketing their

[3]Federal Trade Commission: "Report on Leather and Shoe Industries," page 167.

goods through a certain channel and adhere rigidly to this policy. Many others, however, do not adhere rigidly to any one channel, but sell to anyone who will buy in sufficiently large quantities. In other words the large buyer can often induce the sellers to accord him a wholesaler's status regardless of the nature of his business. Perhaps this is as it should be, and quantity alone should determine the status of the buyer. There are, however, many who take the opposite view, and argue that a large retail dealer should not be given any better price than the small retail dealer. The merits of this contention will not be discussed at this point.

A good illustration of the variations in the methods of distribution is furnished by a mail-order house, which manufactures a great many of its own goods, buys other goods directly from the producers, others through brokers or sales agents, and still others from wholesale dealers.

Longer trade channels.—Goods often pass through the hands of more middlemen than indicated by the foregoing outline. For example, a shipment of Oklahoma eggs sold for consumption in New York passed through the hands of three middlemen in Oklahoma—a local buyer, a country shipper, and a carlot shipper; and four middlemen in New York—a broker, a carlot dealer, a jobber, and a retailer.[4] The same result is caused by sales within the same stage of distribution; that is, sales which do not bring the goods any nearer to the consumers. Such sales may be purely speculative or they may be necessary and legitimate. During the past few years many instances have been cited of the sale and resale of the same article for purely speculative purposes, for example, a car of produce being sold a half dozen or a dozen times without being unloaded. Witness the speculation in silk and sugar during the spring of 1920. During the time the United States Food Administration was functioning, it tried to prevent such sales in foodstuffs and was to a very large extent successful in its endeavors.

Necessity for sales in same stage of distribution.—There are many sales within the same stage of distribution which are necessary and legitimate. This can be made clear by an illustration. A wholesaler estimates that he will need 5,000 cases

[4]A. B. Adams: "Marketing Perishable Farm Products," *Columbia University Studies in History, Economics and Public Law*, Vol. 72, page 401.

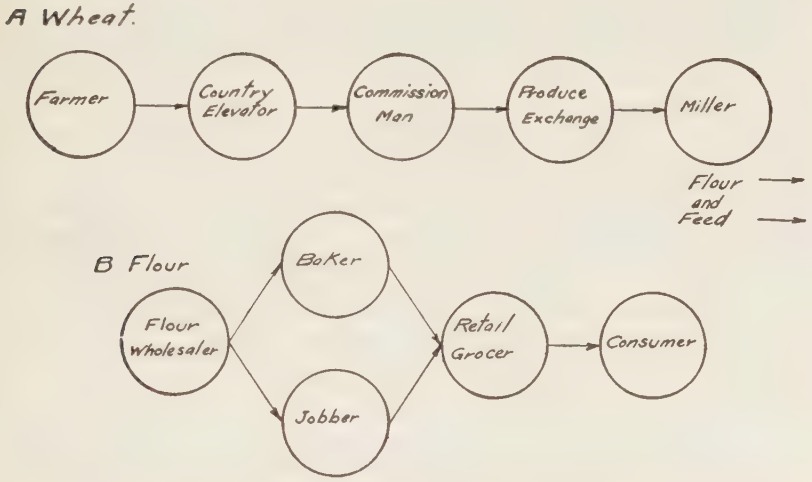
of peas to take care of the season's trade. He therefore contracts for this quantity through a broker. Toward the end of the season he finds that he has sold fewer peas than he expected and that he has a surplus of 1,000 cases in stock. He therefore notifies a broker to sell these for him. The broker may find another wholesaler who is short of peas and makes the sale. In this case the peas have passed through the hands of two wholesalers and two brokers before reaching the retailer. This shows why sales within the same stage of production are sometimes necessary. In actual practice it is very difficult to distinguish between mistakes in forecasting sales and speculation. If the wholesaler really thought his trade would take 5,000 cases, it was an error of judgment or a change in demand. If on the other hand, he bought more than he expected to sell to the retailers because of an expected advance in price, it was a case of speculation.

Trade channels for manufactured goods.—In the foregoing paragraphs the trade channels of goods ready for consumption have been discussed. Many goods must undergo a manufacturing process before being ready for final consumption. In tracing trade channels, an attempt can be made to trace products through all hands from the producer of the raw materials to the consumer of the finished products. This can be done with some products but with others it leads to confusion. For this reason it seems better to consider that the channel ends when the form of goods is changed by manufacturing and that a new channel begins with the finished goods.

Types of manufacturing processes.—There are three types of manufacturing processes—continuous, or straight line; analytic, or elaborative; and assembling, or synthetic. A continuous process is one that starts with a raw material and simply changes it into the desired form. A cotton mill starts with raw cotton, cards, spins, and weaves it into cloth. A paper mill starts with wood and turns out paper. A rolling mill starts with steel billets or ingots and rolls them into the desired shapes and sizes. A flour mill may be said to have a continuous process turning out important by-products in bran and middlings. A cheese factory is a continuous industry, with whey as a by-product. Where raw materials are manufactured by a continuous process, the entire channel from raw

material producer to ultimate consumer can be satisfactorily traced and charted. See the chart on this page which shows the channels followed by wheat from farmer to miller, by flour from miller to baker or housewife, and by bread from baker to consumer.

An analytic process is one that starts with one raw material and breaks it up into two or more finished products. By-



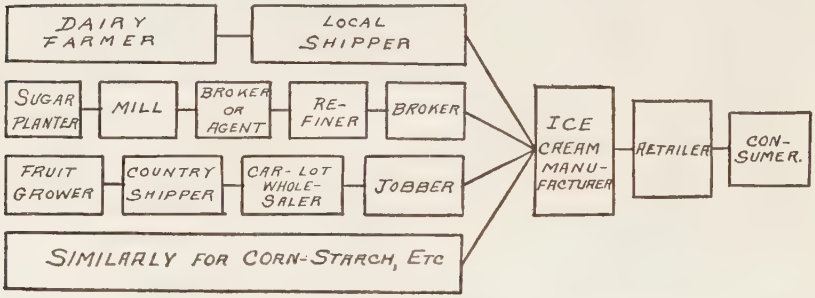
A Straight Line Industry, Typical Routes Followed by Wheat from Farmer to Mills and by Flour from Miller to Consumer

product coke ovens, oil refineries, cork factories, and slaughter houses furnish examples of analytic processes. A slaughter house starts with live animals and turns out fresh meats, cured meats, canned meats, oleomargarine, hides, hair, soap, fertilizer, and dozens of other products. An attempt to follow the routes over which the different parts of the animal are sent, breaks up into dozens or hundreds of routes and leads through the tannery, the shoe factory, the brush factory, the soap factory, the button factory, the glue factory, the fertilizer factory, and so on. The simplest way to think of this situation is to consider that the packing house consumes live cattle and turns out dozens of different products, the trade channels of which can be traced separately.

An assembling process is one that takes two or more raw materials and turns out a finished product. The blast furnace takes coke, iron ore, and limestone, and turns out pig iron.

Tire, automobile, candy, ice cream, and locomotive factories and ship yards furnish examples of assembling industries. A complete chart of goods processed in an assembling plant would show several channels converging in one plant and one channel from there on to the consumer. See the chart below which shows the trade channels in an assembling industry. Here again it is simpler to consider each product as having a separate trade channel.

Types of manufactured products.—There are three kinds of manufactured goods—partly finished materials to be fur-



An Assembling Industry. Typical Routes Followed by Raw Materials used in Manufacturing Ice Cream, and by Ice Cream from Manufacturer to Consumer

ther manufactured; finished goods ready for consumption; and equipment to be used in further production. Partly finished goods often pass directly from one manufacturer to another through salesmen. Often-times, however, they pass through the hands of brokers, sales agents, buying agents, or wholesalers between one manufacturer and another. In the textile trade, selling houses, brokers, and jobbers are common between the manufacturers of thread, cloth and clothing. In New York City, for example, there are said to be thousands of manufacturers of apparel who buy their cloth from small jobbers.[5] Steel is ordinarily made to the order of the buyers by the mills, but there are steel wholesalers who carry stocks to supply small users and who are patronized by large users for fill-in orders.

Finished goods ready for consumption are generally marketed by brokers, wholesalers, and retailers. They may pass through the hands of one, or all of these middlemen. The

[5] *Journal of Commerce*, July 9, 1920.

retailer is generally involved, as the manufacturer ordinarily does not sell direct to the consumer. The greater part of the merchandising machinery of the country, that is, wholesale and retail stores, handles finished manufactured goods and farm products that do not require manufacturing.

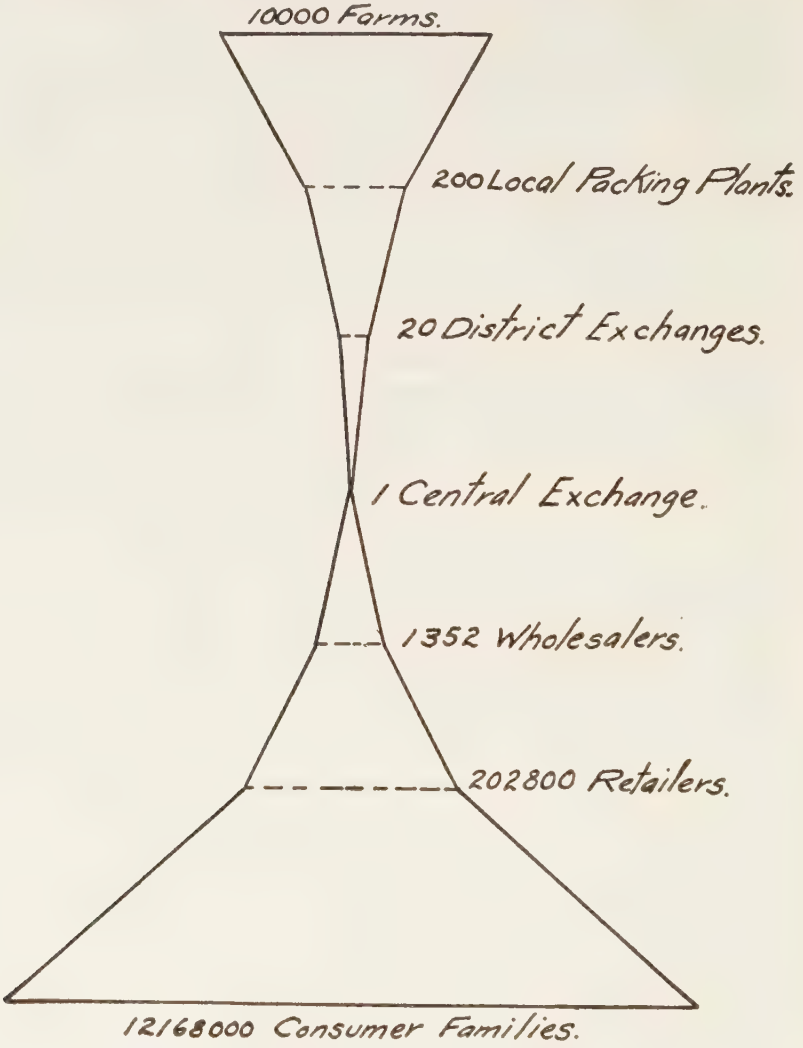
Equipment may be sold directly to the users by the manufacturers or may be marketed through middlemen. Heavy machinery is generally sold direct. In fact much heavy machinery, such as rolling mill machinery, large turbines, dynamos, and locomotives, is made to order and not carried in stock. Light equipment, such as farm implements, artisans' tools, small printing presses, gas engines, and small motors, is often handled by wholesale and retail dealers or by special equipment houses.

Concentration and dispersion.—In the marketing process goods are commonly concentrated or assembled in central markets and from these markets dispersed to the consumers. This movement is called distribution by some. Distribution is used as a broader term in this book to cover the entire movement of goods, both assembling and dispersion. Middlemen may function in drawing goods together or in dispersing or dividing goods and passing them on toward the consumers. The elevator, cotton gin, and farmers' coöperative associations are ordinarily involved in assembling goods and passing them on toward the large markets. Wholesalers and retailers, on the other hand, generally operate on the other side of the central market and are involved in dividing goods and supplying them to the consumers. To illustrate: 110 farmers ordinarily sell their wheat to one elevator, and an average of 5 elevators supply one flour mill. This mill supplies 12 wholesalers with flour. Each of these wholesalers supplies 30 retailers, and each retailer supplies 60 families of consumers. Similar information for the assembling and dispersion of oranges is shown in the chart on page 118.[6]

The diagram of the marketing process resembles an hour glass with the central market as the opening between the two compartments. In the case of some goods, the raw materials for which are produced in large quantities, there is no assembling process except in a physical sense. For example, with a

[6]Figures for wheat and oranges as given by Macklin: "Efficient Marketing for Agriculture," pages 195 and 201.

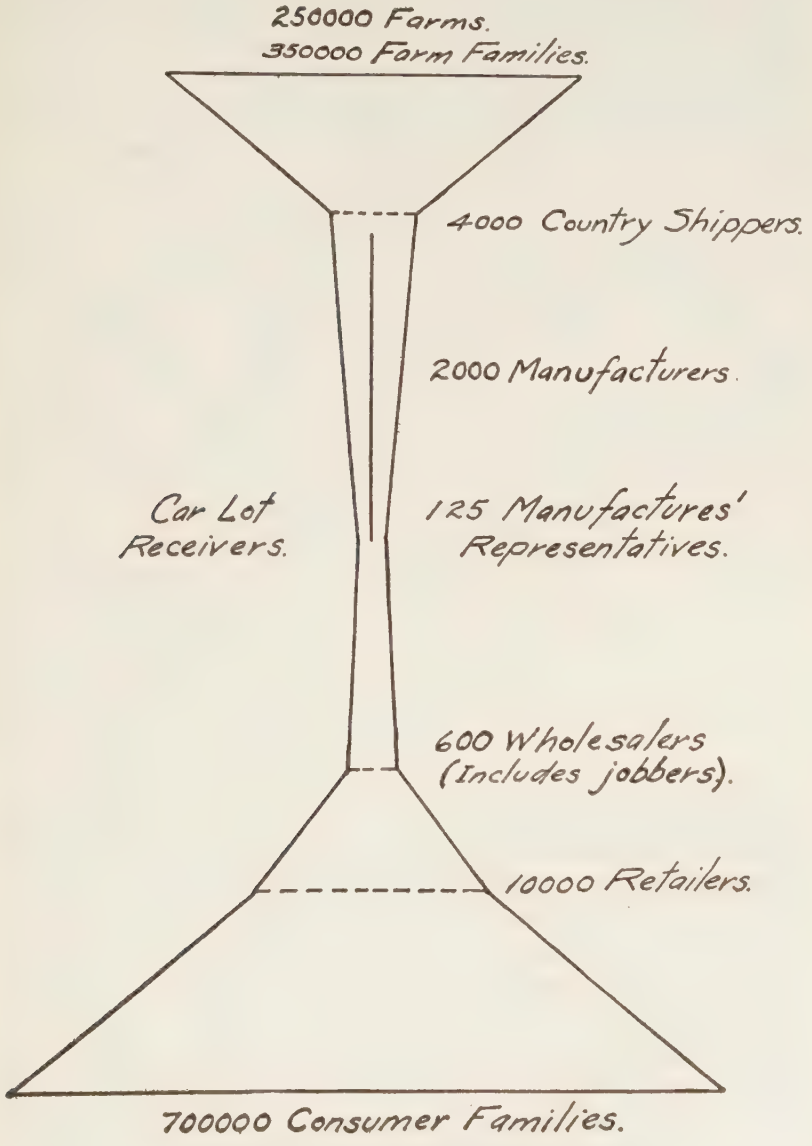
paper or saw mill owning its own forests, or a steel mill with its own ore and coal mines and limestone quarries, the assembling is purely physical as no change in ownership occurs.



Trade Channel for California Oranges

The chart showing how oranges are distributed illustrates the concentration and dispersion of a large part of one product supplied to the whole country. In the chart on page 119 an attempt is made to illustrate how all of one class of products,

namely food, is supplied to one community. The numbers of middlemen are estimated, and if not correct in all cases, will

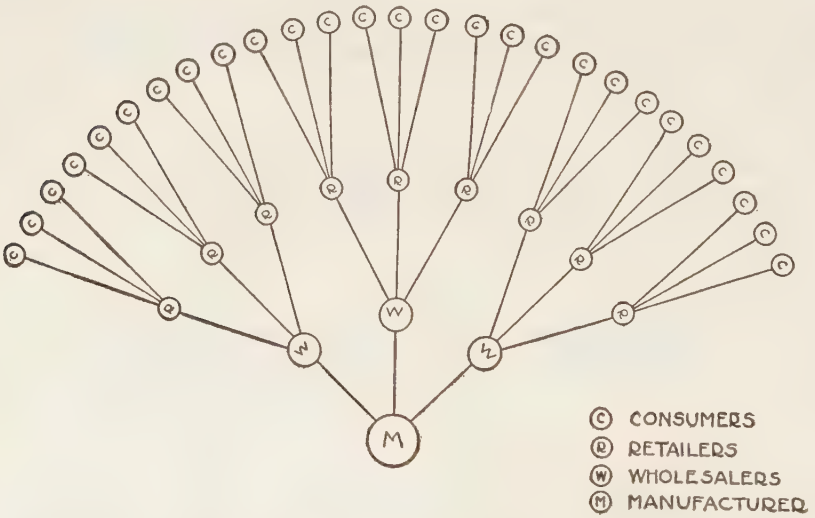


Distribution of Food in Philadelphia Territory

not affect the methods portrayed. For obvious reasons these two charts cannot be drawn to scale. The method shown is

typical but there are many variations. The manufacturers are shown buying from country shippers, but creameries, cheese factories, and canneries ordinarily buy direct from the farmers. Bakers, on the other hand, buy from millers or wholesale dealers and sell to retailers or consumers.

The process of dispersion is further illustrated in the chart below, which resembles a tree.



Dispersion of a Product from Manufacturer, or Central Market, Through Wholesalers and Retailers to the Consumer

Summary.—Relatively few goods pass from producer to consumer without being handled by one or more middlemen. There are many kinds of middlemen. The four principal classes, grouped in a broad way, are: country shippers, brokers, wholesalers, and retailers. Most goods are concentrated and dispersed during the process of marketing. Concentration draws the goods together in the central markets or large manufacturing plants, while dispersion separates them and takes them to the ultimate consumers. Country shippers are engaged in concentration. Retailers are engaged in dispersion. Some brokers help to concentrate and others help to disperse. Most wholesalers are engaged in dispersion, but a great many of them are also engaged in concentrating or assembling.

The majority of goods undergo one or more manufacturing processes before being finally consumed. There are three types

of manufacturing processes—continuous or straight line; analytic or elaborative; and assembling or synthetic. It is simpler to trace the trade channels separately for the raw materials and finished products than to attempt to trace a single trade channel from the original raw material through all the manufacturing processes and middlemen to the ultimate consumers. There are three kinds of manufactured goods—partly-finished materials; finished goods; and equipment or capital goods, to be used in further production. Partly-finished goods often pass directly from one manufacturer to another, although brokers or wholesalers may intervene. Finished goods ordinarily pass through the hands of one or more middlemen—wholesalers and retailers, between the manufacturers and the consumers. Equipment may be sold directly to the users or marketed by middlemen, either the regular wholesalers and retailers, or by special equipment houses.

Before entering upon a more detailed consideration of the sphere and operation of the various middlemen and of the special types of marketing organizations, it seems desirable to include a brief description of the development of types of middlemen and of marketing methods. This is done in the following chapter.

Questions—Chapter VI

1. Why are middlemen necessary? (Review Chapter 3 if you have difficulty with this question.)

2. Name the principal middlemen engaged in assembling goods. In dispersing goods.

3. Why do canners employ brokers to sell their goods? Why do hardware jobbers employ purchasing agents?

4. Draw charts showing trade channels for the following: Flour, fresh fruit, dry goods, canned peas, fresh milk, farm implements.

5. What are the three types of manufacturing processes? What are three kinds of manufactured goods?

6. Should manufacturers' branch houses and retail stores be considered as separate middlemen? Why?

7. Name the four general types of middlemen.

8. Distinguish shopping and convenience goods. To which class do the following belong: Ice cream soda, automobiles, cigars, flour, shoes, men's hats, rugs, laundry soap?

Chapter VII

THE DEVELOPMENT OF MARKETING METHODS

An understanding of the way in which our marketing structure has developed will help us to understand our present marketing machinery and to make suggestions for its improvement. The present marketing system is the result of evolution. New methods which are more efficient or better adapted to existing conditions tend to displace old methods. Changes tend to come as the result of changes in living conditions, methods of production, methods of transportation and storage, industrial organization, state of education, market information available, quality of products to be marketed and extent to which they are graded in accordance with uniform standards, opportunities for advertising, accounting and statistical methods in use, and our legal and ethical codes. For example, mail-order selling resulted from improvements in the transportation facilities, in the opportunities for advertising, and perhaps in part from an increase in quantity of manufactured goods following improvements in the methods of production. Old methods and customs, however, hang on tenaciously. The human factor makes it hard to change marketing methods. We stick to established buying and selling habits. As consumers we are unorganized and often indifferent and thoughtless. Individually we can do little to change the system for the better. Yet changes have come and will continue to come to meet new conditions. Even if we would, we could not retain the present marketing system intact in all details for any great length of time.

In this chapter an effort is made to sketch some of the changes that have taken place in the ways of marketing goods. An attempt is made to show how some of our marketing institutions have developed and how the methods employed have changed. It is believed that this will help the reader better to understand the present marketing organization and how it works.

Markets and fairs.—Marketing had its origin in the barter of primitive people and hence is older than civilization. As commerce developed, people came to meet at certain times and places for the purpose of trading. Here we see the origin of market days and market places. Such markets were used by primitive people and developed with the division of labor, upon which commerce depends. They grew rapidly in England from 1200 to 1500. There were 758 market towns in England and Wales in 1720. This was an average of 16 per county and was equivalent to one for every 1700 houses.[1] The markets came to specialize in certain products, *e. g.,* Leeds, Halifax, Norwich, and Exeter in cloth, Smithfield in cattle, Shrewsbury in provisions, etc. Out of such specialized markets has grown the produce exchange. Retail public markets are inconvenient and tend to decline with the growth of stores. Fairs were, so to speak, large markets held at infrequent intervals and attended by buyers from over wide areas. Famous English fairs were at Stourbridge, Exeter and Westchester. During the 15th century these fairs tended to decline in importance and to become places for wholesalers to transact business by sample.[2] Fairs are still important in many countries, especially those backward in commercial development. Russia has several fairs, the most famous one being at Nizhniy, Novgorod. Prior to the World War, buyers and sellers came hundreds of miles to attend this fair and millions of dollars' worth of business was transacted. This fair was discontinued during the War but has been revived.

Public markets were established in the United States very soon after the colonies were settled. Boston erected a building for market and town activities in 1658. Philadelphia established its first market, of which we have a record, in 1745 while Baltimore established its first market in 1773. Other cities soon followed. There were nine such markets in operation in 1917, according to reports to the United States Census Bureau, that were established in 1800 or earlier.

Present types of markets and fairs.—Public markets declined in relative importance but still exist in large numbers.

[1] R. B. Westerfield: "Middlemen in English Business." See Bibliography at end of chapter for complete title.

[2] *Ibid.*

They are of less importance in the United States than in Europe, but one or more farmers' markets are to be found in nearly every American city. Such markets are discussed in the next chapter. Produce exchanges, which grew out of public markets are discussed in Chapter XI. As stated above, fairs came to be places where goods were sold by sample, and as such, they still exist. We often speak of them as expositions or "shows"—automobile shows, electric shows, food shows, and so on. In some cases permanent buildings have been provided. The furniture exhibitions in Grand Rapids, Chicago, High Point, Evansville, and Jamestown are important expositions that resemble the old fairs after they had become specialized and sold from sample. Entertainers early came to the fairs to amuse the throngs. In our county fairs, the entertainment features often overshadow the selling activities of exhibitors.

Itinerant merchants.—It was, however, impossible for everyone to visit these fairs or market towns for the purchase of goods. The itinerant merchants visited the markets or fairs and purchased goods which they carried through the country, selling to the people in their homes or bartering them for goods which they could dispose of to advantage at the market town or fair. This method is still used in some primitive countries, as for example, in Abyssinia.[3]

Modern types with some resemblance to the itinerant merchant are furnished by the peddler, the huckster, and the specialty salesman or canvasser. The peddler is still found going from door to door in our cities and in some rural sections. In some cases merchants have fitted up complete stores on motor trucks and supply their customers at their doors. The Jewell Tea Company, Inc., furnishes an example of a company selling from house to house on a large scale. This company sells coffee, tea, baking powder, soap, and the like, under its own brands from wagons covering 14,000 different routes, and operating from 100 branches. The huckster is notably important in the sale of fruits and vegetables. Many of them have regular routes and carry first class goods. They allow the housewives to personally select their goods at

[3]It is interesting to compare the marketing methods in Abyssinia with those in the United States. For description of methods in Abyssinia, see United States Department of Commerce, Bureau of Foreign and Domestic Commerce, miscl. series No. 81, "Selling in Foreign Markets," pages 226-230.

their own doors. The hucksters are also important because they dispose of goods that must be sold quickly to prevent their spoiling. They buy such goods cheaply in the wholesale markets and dispose of them quickly to the consumers at reduced prices. They thus give the wholesale dealers an outlet for such goods, prevent the goods from spoiling, and enable the housewife to get cheaper goods for canning or table use.

Specialty shops.—The store handling one product or a limited number of articles seems to have been the first store to develop. Such stores developed from the artisans' shops. The consumers formerly visited the shops to have goods made to order and later to buy articles which the artisans had made in advance of orders. Here was the origin of "shop" as a place to make purchases and of the term "to go shopping." As time passed, a further division of labor took place, and some artisans devoted their entire time to production while others devoted their time to selling, and became shopkeepers. It is impossible to say when the first stores were established. There were very few permanent stores in the English country towns prior to the 13th century and it was not until the 18th century that the stores had a noticeable tendency to replace the markets in the small towns. The London stores had an earlier and more rapid development. Early in the 18th century there were some 50 different kinds of shops—mercers, silkmen, lacemen, goldsmiths, booksellers, drapers, hatters, printers, clockmakers, tobacconists, and so on. The mercers' shops were described as "perfect gilded theaters" and the mercers as having "elegant address and soft speeches." During this century the London stores developed in variety and in elegance. They were said to have brilliantly lighted show windows for the display of goods. The small stores were, however, commonly in open sheds, or in stalls built on the fronts of the shopkeepers' houses.[4]

The specialty stores were apparently brought to America by the colonists, but the general store early became the typical store of the country. With the growth of towns and cities the specialty store has tended to replace the general store, as the specialty store can carry a wider variety of goods and so better meet the demands of the people. There were said to be 7,000 dry goods stores in 1831. Many of these retailers

[4]Westerfield, R. B.: "English Middlemen."

bought their dry goods at the auctions in the two decades following the war of 1812, and so avoided paying the wholesaler's margin.[5] The first hardware store in the United States is said to have been started in 1827 or 1828 in Salem Village (now Town of Naugatuck) near Waterbury, Connecticut, by Amosa and Charles Goodyear. Amosa Goodyear had been a manufacturer of hayforks and buttons. Other hardware stores were started in Boston, New York, and Pittsburgh about the same time. These stores helped to establish an outlet for American hardware manufacturers who had started during the period of embargo, non-intercourse, and the War of 1812. The stocks handled by the stores were very limited compared with those handled today, consisting principally of builders' hardware and carpenters' tools.[6]

General stores.—In England the general stores seem to have been established in the smaller country towns as the public markets declined, while the specialty stores were the prevailing type in the cities.

The general store developed in the United States from the old trading post. When the country around the post was settled, the settlers came to the trading post for their supplies and it was, therefore, necessary for the post to carry a variety of goods to meet the demands of its customers. As the country was at first sparsely settled there was in many communities only trade enough to support one store and hence this had to be a general store. Although the specialty store was introduced into this country from England, a great many specialty stores seem to have developed from the general stores or to have been started in competition with the latter. As the population of a community increased, a village or town might support several stores. Some of these stores might drop certain lines of goods which proved relatively unprofitable, or new stores might be started to handle only one line of goods—groceries, drugs, or dry goods. Competition from these specialty stores often forced the general stores to drop certain lines and to increase their stocks in other lines so as to be able to compete with the specialty stores. In this way many general stores were forced out of existence or transformed into specialty stores. In small towns general and specialty stores

[5]Westerfield, R. B.: "Early History of American Auctions."

[6]*An unpublished thesis* by Frank A. Hegner, University of Pittsburgh, 1922.

often exist side by side, but as the towns grow the general stores eventually disappear. The general store is, however, still common in the rural districts and in the more sparsely settled sections is still the prevailing type. It is especially important in parts of the South and the West, and in the East in mining villages.

Foreign traders.—Foreign trade has been carried on by traveling merchants (at first the owners and captains of the ships), by super-cargoes, by factors, by foreign resident commission houses, and by branch houses. They developed approximately in this order. In the United States the importing houses seem to have been the first wholesalers, importing from abroad and selling to the retailers in the seaport towns and in the interior. With the development of American manufacturing they came to handle American-made goods, while new houses were started to furnish additional outlets for the domestic factories. Wholesaling as separate from importing was thus started. The wholesalers built up selling organizations and extended credit to retailers.

English commercial life in seventeenth and eighteenth centuries.—Westerfield has given us a very full picture of English commercial activities and methods during the seventeenth and eighteenth centuries, the time at which the English colonists were coming to America.[7] By 1750 the capitalistic system had become firmly established, credit in the modern sense was in use in the form of book credit and promissory notes, and commercial panics were known, the first having occurred as early as 1667. Prior to the industrial revolution the merchants were much stronger financially than the producers and commonly extended credit to them, often in the form of raw materials to be manufactured. Fire insurance was common by 1723. Commercial banking had become established. As transportation by stage coach was available, the post office was operating on a modern basis. The weekly newspaper was started in 1621 and the first business advertisement appeared in 1658. By 1724 London had three daily papers. Inns and taverns were common. The large merchants had become wealthy. They had clubs, suburban homes, and sent their children to good schools. They bought landed estates, married their daughters into the nobility and "arrived

[7]"English Middlemen."

socially." There were many different kinds of retail shops and many of those in London were equipped with elaborate and showy fixtures.

Old trade channels.—Middlemen types were highly developed. Coal ordinarily passed through the hands of five middlemen between the miner and the consumer,—fitter, ship master, crimp, first buyer, and retailer. Cattle were often sold by the breeder to a grazier, or fattener. The grazier sold the fat stock to jobbers, to butchers, or through salesmen on the public markets. One-half of the live stock for London's meat supply was handled on the Smithfield market. The cattle were sold by salesmen on a commission basis for graziers or jobbers to carcass or cutting butchers. The carcass butchers slaughtered the stock and sold the meat to cutting butchers who sold to the public on the public markets or from house to house as hucksters. The farmer sold his grain to a local buyer or perhaps to an export merchant. Between the local buyer and the miller one or two middlemen intervened—the jobber and the factor. The miller sold to a mealman who supplied the bakers and retailers, and they, in turn, to the consumers, a channel very similar to that now followed by wheat and its products in the United States. The channel followed by wool was as long, or longer than that followed by grain or cattle. These routes seem to have been unnecessarily long for such a small country. This was probably due to slow and expensive means of transportation;[8] to the small size of most business enterprises; to lack of information, business men in one community not knowing those in other communities; and to the fact that few goods were sufficiently standardized to be bought and sold by grade.

This description of old methods is introduced to show those who are inclined to make blind statements about merchandise at present passing through too many hands, that English trade channels of two centuries ago were often as long, or longer than those of today. This of course does not mean that present channels are not too long. It may be that the process of shortening trade channels should go on faster than it has.

[8]In the United States prior to the building of railroads the common cost of transportating goods by wagon was $10 per ton per 100 miles. Grain could seldom be marketed more than 100 miles from place of production unless water transportation was available.

Middlemen, once established, fight tenaciously to hold their positions. Witness the opposition of certain classes of retailers to the chain stores, mail order houses, and direct selling by manufacturers. This question is discussed in the final chapter of this volume.

Apprentices.—Formerly a seven-year apprenticeship was required of boys who wanted to become merchants or shopkeepers. Retailing was too simple to require such a long training and the old arbitrary requirements were abandoned. English stores, however, still train their young employees much as if they were apprentices and some serve a regular three-year apprenticeship.[9]

In the United States, arbitrary limitation on the right of anyone to enter any business has been frowned upon. Prior to the Civil War, however, in order to get into the wholesale business, boys had to serve what amounted to an apprenticeship.[10] Retailing in this country has suffered from being too easy to enter. It would seem desirable to require all persons wishing to become merchants to pass an examination on the simple principles of merchandising and bookkeeping. This knowledge might be obtained in schools or by working for older merchants.

The traveling salesmen.—Traveling salesmen have not always called upon the retail dealers to solicit business. The retailers formerly went to market—Boston, New York, Philadelphia, Baltimore, Cincinnati, St. Louis, Chicago, New Orleans and smaller jobbing centers—once or twice a year to buy their goods. The first wholesalers were the exporters and importers. In England these foreign trade houses had developed organizations for gathering domestic merchandise for export and for distributing imported goods. With the development of the factory system, separate wholesalers and commission houses came into existence. With the increase in the quantity of goods, competition became keener and the wholesalers employed men to "drum" up trade by inducing the retailers to visit their stores. The "drummers" at first met the country merchants at the hotels and by "being good fellows" tried to establish friendly relations. As competition

[9]"Retailing in Great Britain," by G. R. Sprague, *Saturday Evening Post*, December 30, 1922.

[10]Briggs: "Fifty Years on the Road."

got keener the drummers took to the road, called upon the merchants in their stores, and tried to secure their friendship and their promises to visit their employers' wholesale stores on their trips to town. They soon came to take orders for goods and so developed into traveling salesmen. The traveling salesmen really came into existence in the decade preceding the Civil War, following the building of the railroads. Prior to this time, however, some wholesalers had sent out men to make collections and secure credit information. Such men were first employed in the years following the panic of 1837. There were relatively few traveling salesmen prior to the Civil War. The total number in the United States in 1861 was estimated not to exceed 1,000.[11]

Mercantile agencies.—Credit information came into great demand following the panic of 1837 when so many creditors lost money. As pointed out above, the first commercial travelers were sent out to gather credit information. The first mercantile agency was established in 1841 by Lewis Tappan of New York. This agency was later taken over by R. G. Dun & Co. J. M. Bradstreet started the Bradstreet Co. in 1849.[12] Many other agencies were started, but these two have become the leaders in the field. Agencies to publish credit ratings for all business concerns are typically American institutions. In no other country has the machinery for gathering and distributing credit information developed as in the United States. The practice of giving copies of balance sheets to companies from whom credit is requested, is now common although some buyers still refuse to give such information. The practice among sellers of exchanging information as to their past experiences with buyers is also common. Speaking of credit conditions in 1860 A. B. Farquhar said:[13] "In our town (York, Pa.) the ordinary bills were paid once a year, on April 1. On that day the people came in from all over the country, and, cash in hand, went around to clean up their bills . . . . . If a man did not pay on that day he was as good as insolvent. We, in business, had to pay somewhat more often than once a year, but seldom did we pay at more frequent intervals than quarterly. Then we had to pay or lose

[11]Briggs: "Fifty Years on the Road."

[12]Nystrom, Paul H.: "The Economics of Retailing," page 31.

[13]Writing in *System*, September, 1920.

standing. We, too, paid in cash; sometimes we used bank checks for payments to distant points, but drawing a check was something of a ceremony and was reserved for larger affairs."

Department stores.—Three types of retail stores of recent origin are the department store, the mail-order house, and the chain store. The department stores and mail-order houses grew up during the seventies and eighties of the last century, while the chain stores have had their principal growth during the last few decades. All department stores did not have the same origin. Most of them have developed from dry goods stores and in the small towns no clear distinction is made between a "dry goods" store and a "department" store. Some department stores have developed from general stores. This was apparently true of Gimbels, which grew from a trading post started in Vincennes, Indiana, in 1842; and of Macy's started in New York in 1858 by S. S. Houghton, a general merchant from New Hampshire.[14] Some department stores are said to have had their origin in the consolidation of several specialty stores previously conducted under one roof. Some credit the Jordan Marsh store of Boston as being the first real department store in the United States. This store is said to have been copied after the Bon Marché in the city of Paris.

The large department stores were made possible by the growth of large cities and the development of rapid transit facilities. With the falling prices following the Civil War, new methods of retailing were necessary. A rapid rate of stock turnover became more important. In order to continue to make profits, the shrewder merchants attempted to buy goods cheaper and to buy directly from the manufacturers. Prices were reduced, percentages of gross profits lessened, and net profits realized from quicker stock turnovers. Advertising was employed to draw customers to the store and a higher type of service rendered in order to satisfy the customers. The department stores led in the introduction and development of these methods. Much of the growth of the department stores has apparently been based on bargain sales and cut prices. The convenience to the public of centrally located stores where

[14]Cherington, "The Wool Industry," page 225, quoting from *Corset and Underwear Review* of February, 1914.

all the needs of the family could be purchased under one roof and on one line of credit has also contributed much to the growth of the department stores. In recent years "service" has come to be more emphasized, although "price" is still stressed by most stores.

Mail-order houses.—The development of the American railroads gave the country quick, safe and cheap transportation and made possible the development of the mail-order method of doing business. The mail-order houses obtain most of their business from the rural districts. Until quick and cheap methods of transportation were available, the rural population could buy goods from distant cities only on rare occasions and at considerable expense. It was therefore necessary for them to buy from the local merchants what goods were not produced at home. The development of the mail service and the increase in the circulation of periodicals made possible widespread advertising. The growth of the mail-order houses is based to a very large extent on large-scale advertising. With the growth of education and the extension of the reading habit came a desire for more and better goods. With an increased prosperity came a demand for a wider selection and a better quality of goods than were available at most of the country stores. The mail-order houses really developed to supply this demand.

Another factor contributing to the growth of mail-order selling was the great increase in the quantity of manufactured goods. When the manufacturers failed to find a satisfactory outlet for their goods through the regular trade channels they were willing to sell the consumers direct or supply goods to the mail-order houses.

The oldest of the large mail-order houses is Montgomery Ward & Co., which started in Chicago in 1872 to serve as a supply house for the farmers' granges,—coöperative organizations of farmers whose correct name was The Patrons of Husbandry.

Chain stores.—The phenomenal growth of the chain stores during the past fifteen years has been the most outstanding fact in the field of retail merchandising. Acker, Merrall & Condit began business in 1820, and Park & Tilford in 1840. Both of these concerns now operate grocery chains in New York City, but they did not start chains at once. Park & Til-

ford opened their second store in 1866. The Great Atlantic and Pacific Tea Co. was started in 1859, The Jones Bros. Tea Co. in 1872, and the F. W. Woolworth Co. in 1879. It was not, however, until after 1900 that the chain stores began their rapid growth.

Some of the chains grew from individual stores, the proprietors starting additional stores as their capital permitted. In other words, successful merchants used a part of their profits to start branches and when these branches became numerous enough they were called "chains." Until a few years ago, many successful merchants tried to expand their business by increasing the size of their original stores. Experience, however, seems to indicate that efficiency can be maintained better in several small retail units than in one large one. It appears that many chains formed by the expansion of retail stores have been successful, while corporations organized to establish chains of stores have often failed. Other chains have been started by manufacturers to furnish outlets for their goods.

Some of the chief reasons for the rapid development of the chain stores have been their low prices during a period when the cost of living was on the increase; the convenience of the location of their stores to the public; and the efficiency of their management. The development of modern accounting methods has made possible accurate supervision and control of large selling organizations.

The low prices have been made possible by the fact that most of the chain stores have operated on an "economy" basis and that their size has enabled them to buy direct from the manufacturers and eliminate the jobbers' profits.

The self-serve stores.—A still further movement toward the reduction of operating expenses is seen in the establishment of self-serve stores. We have been familiar with the self-serve lunch rooms and cafeterias for some time. The "grocerteria," established some eight years ago in Inglewood, Calif., was one of the first self-serve grocery stores to attract attention. There were, however, self-serve stores before this, as, for example, The Help Yourself (men's clothing) Store in Pittsburgh. One of the best known chains of self-serve stores at the present time is the Piggly Wiggly Stores, Inc. The first of these stores was opened in Memphis, Tenn., on

September 12, 1916. The number grew very rapidly, over 500 stores being opened prior to September 1, 1920. These stores reduce the number of salesmen needed to do a given amount of business, and when they have a large volume of business can reduce operating expenses materially.

Conditions prior to Civil War.—The methods of conducting retail stores have changed in many respects during recent years. Prior to the Civil War the general and specialty stores had the field to themselves. Mail-order houses and large department stores were unknown. There were relatively few manufactured goods and the stores were not forced to carry as wide a variety of goods as at present. The needs of the people were few, compared with present standards. Styles seldom changed and goods could be kept, therefore, for several years with little danger of going out of style.[15] There were few traveling salesmen and the merchants went to market once or twice a year to purchase their merchandise. The stores served as social centers to a larger extent than at present. Speaking of the general store, Nystrom says: "It was frequently the location of the post office, and served as the village social center for the men. The old box stove, the rickety chair or two, the nearby barrels, and the sawdust spit box, were the most universal furnishings that equipped it for its social services. Here politics, religion, and neighbors were

[15]Conditions in 1860 have been described as follows: "A suit of clothes would serve a man first as his Sunday best and next as a working suit for years. On week-days they did not so much care how they looked, and the ordinary working suit was not discarded until entirely worn out—until there were no places left on which to hang patches. In summer some of the men, and practically all of the children, went bare-footed. A woman's best dress—and it was the care of every woman to have one best black silk dress to be worn on special occasions only—was expected to do for years. Fashions were much less despotic than today. But really, clothing was not expensive. Nearly all women made their own dresses, and if they did not make them in the first place they were made by a local dressmaker and then made over every few years by the lady herself. . . . .

"When a man wanted a suit, first he bought the cloth, and then he hired a tailor to make it. Tailors made suits; they did not sell cloth."—A. B. Farquhar writing in *System,* September, 1920, pages 412 and 413.

Speaking of woolens in the seventies and eighties, the *New York Times* of April 23, 1922, said: "The fabric weights were quite different from those now produced, except in overcoatings, which have not changed so much. The spring cloths ran from 14 to 16 ounces, and the winter materials from 18 to 26 in the days when both private and public places were not so well heated." Present weights of winter cloths in the northern States are generally 14 to 16 ounces.

discussed. It may not be too much to say that here the tariff question, the government bank, internal improvements, foreign policies, and other important government matters were ultimately settled. Certainly statesmen had to reckon with the forces of public opinion generated and cultivated around the stove of the country store."[16]

For several years prior to the Civil War, prices were rising. Goods not sold would be worth more next month or next year. It might be more profitable to keep the goods than to sell them. Hence the expression "keeping store" and "storekeeping" was often more or less of a lazy man's occupation.

Higgling over prices.—Very few storekeepers marked their goods with plain prices and the one-price plan was almost unknown. Buying was a matter of bargaining or higgling over price. When the price was stated by the seller, the buyer would offer a figure considerably lower and would try in every way to make the dealer "come down." The price agreed upon might be considerably lower than the price first asked by the merchant. The relative bargaining ability and perseverance of the two would exert a considerable influence on the price actually paid in the end.

Introduction of one-price plan.—One of the first prominent merchants to introduce the one-price plan and mark his goods in plain figures was John Wanamaker who introduced the principle in his store in Philadelphia in 1876. Since that time, the one-price plan has come into general use in many retail stores, but its use even now is by no means universal. There are many stores which do not mark their goods in plain figures and which are not averse to "cutting" a price when such a policy seems necessary to make a sale. This practice seems to be more prevalent in the sale of goods of relatively large value per unit, *e. g.*, clothing.

Changed methods due to falling prices.—Following the Civil War there ensued a period of falling prices. The trend was downward, from 1865 to 1895, with the exception of a few years in the early eighties. The retailers had to make their profits by selling goods; not by keeping them. If goods were kept for any length of time they would be worth less than when purchased. This led to quicker stock turnovers and the carrying of smaller and better assorted stocks of goods. The

[16]Nystrom, Paul H.: "The Economics of Retailing," pages 23 and 24.

traveling salesmen made possible more frequent purchases, which meant that goods could be purchased in smaller quantities. Intelligent merchants have come to realize that profits cannot be made by keeping money tied up in goods which are not moving. If a loss must be taken, the quicker it is taken the better, for the longer it is postponed the larger it is likely to be. Intelligent merchants keep reducing the prices of slow-moving goods until they are sold. The policy is now generally recognized as good merchandising and yet there are still merchants who will carry goods in stock indefinitely rather than sell them below the original purchase price.

Increase in manufactured goods.—During the past sixty years, the quantity and variety of manufactured goods have been constantly increasing. Factory-made goods have taken the place of goods formerly made in the home. For example, we have ready-made clothing for both men and women in place of garments made by the housewife; canned goods in place of home canning; baker's bread in place of baking days; factory shoes in place of those made by the local cobblers; and creamery butter in place of the frequent churnings.

Many entirely new articles have been manufactured and have come into common use. For example there are talking machines, kodaks, typewriters, adding machines, breakfast cereals, all kinds of electrical appliances, plumbing supplies, and automobiles and accessories. This increase in the quantity and variety of manufactured goods has meant that the retailers have been called upon to carry a wider variety. This, in turn, has meant greater care in selecting goods and making purchases, as a smaller quantity of each article can be carried in stock. In other words, frequent purchases of small quantities of the various articles is the keynote of modern retailing. New stores have been called into existence to handle new kinds of goods, such as the electrical shop and the automobile accessory store, while the modern drug store has furnished an outlet for many of the newer articles.

Rapid changes in style.—Another factor that has influenced retail methods has been the rapidity with which styles change. The change in styles is especially rapid in clothing, and dealers handling women's clothing are especially affected by it. The type of merchandise carried by all classes of dealers is, however, subject to change through new living methods, new inven-

tions, and so forth. For example, the automobile has largely eliminated the demand for hammocks. The spread of information on sanitation has created a widespread demand for fly screens. The installation of electric lighting plants by the farmers has caused a falling off in the demand for fancy oil lamps but has given the rural merchants a demand for electric lamps and other electric appliances. The rapidly changing styles mean that the dealers must use better judgment in selecting their goods, and must buy in smaller quantities. The risk involved is increased as poor judgment in forecasting demand may mean a large loss. Merchants do not like to carry style goods over from one year to another and this fact partly explains the price reductions in end-of-season sales. From 1895 to the spring of 1920, prices were increasing, yet few of the better merchants liked to carry goods over from one season to another. Not only is the capital involved inactive, but there is a considerable risk of change in style.

Waste in changes of style.—The greater the style risk, the higher must be the retailer's mark-up. Compare, for example, the percentage of mark-up made by the retailer on heavy hardware or staple groceries with that customary on millinery. The consumers must pay for the rapidly-changing styles. The rapid change in styles involves a serious economic loss. Not only are the prices of style goods high, but the goods are discarded before they are worn out. This means that labor and raw materials are constantly being used to produce new goods to replace those discarded. This labor and these raw materials could be used to better advantage in producing goods to satisfy other and more important wants. Some economists and sociologists have been advocating the standardization of clothing to prevent rapid changes in style, but so far their efforts seem to have been unsuccessful. Changing styles seems to have become a national habit. Some dealers have encouraged style changes in order to increase their sales. From a broad economic viewpoint, such a policy is indefensible. It must, however, be remembered that the retailer supplies rather than creates demands and that the changes in the style, type, or kind of merchandise demanded by the consumers, is a fact that all retailers must consider in the conduct of their business.

Small size of purchases.—Consumers now buy merchandise in much smaller quantities than formerly. People living in

towns and cities seldom lay in a winter's supply of apples, meat, flour, or potatoes, as they did formerly. In the modern apartment houses there is very little space in which to store supplies. Many families now buy goods from day to day as needed. This method of small-quantity buying means more work for the retailers, and more salesmen, deliverymen, and bookkeepers to handle an equal volume of goods. This fact should be borne in mind when comparing the services rendered by the present-day retailers with those of their predecessors of a half century ago.

Increase in competition.—Another change has been the increase in competition in the retail field. Electric railways and automobiles have made people less dependent on their neighborhood stores. The general stores and individually-owned specialty stores no longer have the field to themselves. They are faced with competition from the department stores, the mail-order houses, the manufacturers selling direct to the consumers, and the chain stores. This competition has forced the retailers to furnish a higher type of service to the consumers or to sell at lower prices. The department stores have, in recent years, given much emphasis to service. The motto that "the customer is always right" is no longer unusual. The chain stores have generally emphasized price and have given little delivery or credit service. The buying public is beginning to understand that the price paid for goods covers not only the physical cost of goods but the services rendered by the dealer. With the various types of stores now in existence, the urban public can to a large extent take its choice of purchasing much or little service. The future of the department and chain stores may depend largely on the preference of the purchasing public in this regard.

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Questions—Chapter VII

1. What was the origin of the specialty store? Of the general store? Of the department store?

2. What made possible the development of mail-order selling? Why have the mail-order houses grown so rapidly?

3. Why have the chain stores grown so rapidly since 1905?

4. Contrast retailing methods of the present with those of 1850.

5. Why is there less higgling over prices than formerly?

6. How has the increase in the quantity and variety of manufactured goods affected retailing?

7. Why do styles change so rapidly? Is this desirable? If not, how can such rapid changes be prevented?

8. Why do the consumers buy in such small quantities? Is this a desirable practice from the standpoint of the consumer? Why or why not?

Chapter VIII

DIRECT MARKETING

Before taking up the discussion of the various types of middlemen, we shall consider the direct sale of goods from producers to consumers.

The farmers may sell products ready for consumption, or goods manufactured on the farm, to the consumers in four ways: by selling and delivering from house to house; upon farmers' public markets; by mail, the goods being delivered by parcel post or express; and at their own doors, the consumers visiting the farms and taking the goods home with them.

Manufacturers often speak of "direct marketing," meaning the elimination of the wholesalers and selling direct to the retailers. The logical meaning of the term "direct marketing" is that all middlemen are eliminated and that the producers sell direct to the consumers. This is the way the term will be used in this chapter. Manufacturers may sell to the consumers in three ways: by specialty salesmen going from house to house; by establishing retail stores; and by mail solicitation and delivery of goods by mail, express, or freight.

Farm Products

House-to-house sales.—Farmers living near villages, towns, and the smaller cities often dispose of much of their produce by peddling it from house to house. This is also done by some of the truck farmers living near the large cities who sell their products in the suburbs or in the outlying residential districts. It would be difficult to estimate the amount of goods sold in this way, but the total is very large. This method is convenient to the housewife as it allows her to see what she is buying and saves her the trouble of visiting the local stores. Incidentally, this service to the housewives explains why there are thousands of hucksters in our cities who buy in the wholesale markets and sell their goods from house to house. Such

service is especially important to the housewife who otherwise would have to buy by telephone. The delivery of the heavier articles such as potatoes or melons is also very helpful to the housewife who patronizes the cash-carry stores. The farmer often sells at lower prices than prevail in the retail stores. This, however, depends on the supply of goods in relation to the demand. In cities where few farmers sell in this way the farmers may demand the full retail price on the ground that their products are fresher than those obtained from the stores. Some farmers sell in this way only when the crops are large and it is impossible to dispose of their products satisfactorily to carlot shippers, to retail grocers, or upon the public markets. Undoubtedly, the sale of goods can be stimulated in this way, especially when the prices are low. It takes much more of the farmers' time to sell from house to house than to sell to wholesale or retail dealers, but perhaps no more than is ordinarily taken to sell upon the public markets.

In the smaller towns, many dairy farmers deliver their milk from house to house. As previously pointed out, however, many of them have come to sell at a lower price to a milk distributor, or to a creamery, rather than continue the expense involved in house-to-house delivery, filling and cleaning bottles, and so on. The central distributor can save the duplication of milk wagons and drivers, utilize the surplus milk to better advantage, and handle the milk and bottles in a more sanitary manner.

Farmers' markets.—Much has been said in recent years about reviving the farmers' markets to provide places where the farmers could bring their produce and sell direct to the city consumers. Such markets exist in many cities, but as a rule, they supply only a fraction of the food purchased by the consumers. The reasons for their limited use are: the time it takes the farmers to get to and from the markets, especially in the larger cities; the time it takes to sell the produce to the consumers; and, lastly, the time it takes the city consumers to visit markets to buy their supplies. Farmers' markets exist in most cities, but in many instances the farmers sell only at wholesale—principally to dealers, in lots of one bushel, one basket, one barrel, or more.

Municipal markets.—Many cities have established munici-

pal markets, some spending money for land, buildings, and sheds, and others setting aside certain street space for curb markets. Many farmers' markets are public markets in that they are owned and supervised by the cities where located. The United States Census Bureau made a survey in 1918 of municipal markets in cities with populations of over 30,000.[1] This survey showed 237 municipal markets in 128 of the 227 cities. Some of these markets were started as experiments and were soon discontinued. There are also many farmers' markets conducted on private property, and there are also farmers' markets in cities of less than 30,000 population. These 237 municipal markets are not all for farmers, but there are many farmers' markets not included in this list, so that the total number of farmers' markets would probably be much in excess of this number. In many of these municipal markets, most, and sometimes all, of the sellers are dealers and not producers. Many of these markets are not farmers' markets, all or most of the sellers being dealers and not producers. Only a few of them are exclusively for farmers. Where the markets are filled with dealers, the cities evidently feel that competition and low rent hold down prices to the consumers, or else continue the market as a source of profit. Of the 237 municipal markets, 174 were reported as exclusively retail, 14 as exclusively wholesale, and 49 as both wholesale and retail. Classified in another way, 141 were held in the open, 57 inside of buildings, and 39 were partly open and partly enclosed. New Orleans led in the number of markets, with 19 municipal markets and 9 quasi-public markets not included in the above total. Baltimore was second with 11 municipal markets.

Advantages of farmers' markets.—In the following paragraphs, a few specific examples are given of the operation of farmers' markets in different parts of the country. The farmers are successfully selling some produce direct to the consumers on such markets in quite a few cities. It is hard to make a general statement as to just what advantages are realized by the farmers and consumers. The farmers often get higher prices for their products than they would from either local buyers or city wholesalers, but this method

[1]U. S. Census Bureau, Municipal Markets in Cities having a population of over 30,000, 1918.

of selling requires a large amount of time. Again, farmers often find by direct marketing a sale of products that could not be sold to the local shippers. Consumers often find that they can buy just as cheaply from dealers as from farmers. It may, however, be that the dealers' prices are held down by competition with the farmers. Furthermore, some consumers patronize the farmers' markets in order to secure fresher goods. Other consumers report much lower prices at the farmers' markets, but to secure such prices they must generally spend quite a little time and buy in larger quantities than would otherwise be necessary. Consumers are more likely to do this in buying something to which they attach more than usual importance, for example, fruit for canning.

Markets in Harrisburg and Knoxville.—There are several cities where farmers' markets are successfully selling to the consumers. The most successful of such markets that have reached the author's personal attention are those in Harrisburg, Pa., and Knoxville, Tenn. Both of these are cities of between 70,000 and 100,000 inhabitants, and both are located close to good farming sections. In Harrisburg, the farmers rent space from privately owned market companies. In Knoxville, the farmers park their wagons on the market square and on adjacent streets. One side of the square is occupied by farmers selling at retail, and the other side by farmers selling at wholesale.

In Harrisburg, according to the author's information, the people go to market from habit, the custom having been handed down from their Pennsylvania Dutch ancestors. The goods are fresher, perhaps, but they are said to be little, if any, cheaper than similar goods sold by the local grocers. In Knoxville, the retail grocers are said ordinarily to sell produce as cheaply as the farmers selling at retail, and in addition, they deliver the goods and extend credit. Lower prices can be obtained, however, when the farmers are anxious to go home, as on Saturday afternoon; or by buying on the wholesale side of the market. The minimum quantities sold on the wholesale side of the market are often within the reach of the ordinary customer—one watermelon, one basket of grapes, or one bushel of apples. Successful public markets are in operation in other cities but it is doubtful if consumers save more than indicated above by patronizing them.

Markets in Washington and California.—Seven cities in the State of Washington have had public markets, four of which were in operation in 1917. The Seattle market has been considered a success, but it seems that the consumers get little benefit from it. The Office of Farm Markets of the State reported: "The farmers selling on the Seattle market get the full retail price. Comparison with prices on uptown markets and the testimony of consumers substantiate this. . . . The customers. . . . are attracted to the market by the freshness of the products and the ability to choose from a large variety of produce. . . The consumer has to consider the cost of personal marketing, transportation, time, and inconvenience. . . . On all the Washington public markets . . . practically the full retail price is charged except for bulk purchases, or on Saturday nights." The average cost of selling by the farmers on the Seattle market is estimated as 38 per cent of the price to the consumer.[2] Public markets have been established at several cities in California but most of them are reported to be failures. The most successful one is located at Santa Cruz, and the prices are reported to be slightly lower than those charged by the local dealers.[3]

Direct sales by parcel post.—The Post Office Department has been active in promoting the shipments of foodstuffs to the cities by parcel post as a means of decreasing the cost of living and increasing the postal receipts. The price is supposed to be somewhat higher than the farmer could receive in his local market, and somewhat lower than the prevailing retail prices in the city. The practice is therefore supposed to benefit both producer and consumer. The farmer also finds an outlet for his goods and is able to sell quantities too small to be sold in other ways, and the consumer gets fresher goods. This method of selling or buying has had some growth, and a considerable number of people are using it successfully. It is, however, relatively unimportant and has so many disadvantages, or limitations, that it will probably never come into regular use by most people.

Disadvantages of the parcel post method.—It is difficult

[2]"Bulletin of Office of Farm Markets, State of Washington," by George S. Wehrweiss, quoted in the "Third Annual Report of the State Market Director of California," pages 79-84.

[3]"Third Annual Report of the State Market Director of California," pages 85-87.

for connections to be made. The consumers hesitate to place orders with strangers and the farmers hesitate to ship goods to strangers except on the c.o.d. basis. It is hard for the farmers to keep their customers posted at all times as to exactly what they have for sale. The buyer may place an order for goods which have all been sold or the order may be received in a busy time when the farmer cannot afford the time to pack and ship the goods. In either case, the buyer is disappointed and loses confidence in the seller. This method also involves the necessity of the consumer anticipating his wants, and the bother of writing letters, and frequently of addressing and returning empty cartons. To the farmer it means the trouble of packing and addressing packages, often at inconvenient times, and of writing letters. Disputes are likely to arise as to the quality of the goods, or as to the damages in transit. The goods may not be graded quite as carefully as the goods ordinarily bought by the city consumer or may be overripe or mashed in transit. Unless both parties are absolutely fair in settling such cases, the relations are likely to be severed. Then there is the question of prices, which are often supposed to be between those at the country shipping point and the city retail prices. The farmer must pay the postage and, as his goods are fresher, he often feels that he should receive the retail price. This may lead the buyer to think that he is not getting a square deal. On the other hand, if the price is left to the buyer, the farmer may feel that he is being taken advantage of. The determination of a fair price is no easy matter, for the price of produce changes from day to day, and from hour to hour. The price may be at one point when the goods are shipped and at an entirely different point when they arrive. Then the retail prices vary with the quality of the goods and the store at which the purchase is made.

Take peas for an example. The price of young, tender peas at a high-grade grocery store may be $1.60 a peck, while peas of a poorer quality may, on the same day, be bought at a cash market for 40 cents a peck. What, then, would be a fair price for a parcel post shipment of a medium grade of peas?

Parcel post shipments of farm products to city customers may benefit some farmers and some city consumers, but this

method cannot materially reduce the expenses of marketing the nation's food.[4]

Consumers visiting the farms.—Occasionally, the consumers will visit the producers and take their purchases home. This is often done by visiting a neighbor for eggs, milk, or garden vegetables. The automobile has made it possible for the city man to visit the farmer to purchase supplies and take a pleasure ride at the same time. It has become quite common for farmers along much-traveled automobile roads to display for sale, goods on tables in their front yards, or to nail up signs stating what they have to sell.

Manufactured Goods

Specialty salesmen may be used in selling raw materials, equipment, and consumption goods.

Raw materials.—Producers of raw materials, whether manufacturers or miners, frequently employ specialty salesmen and sell their products direct to the consumers—manufacturers, public utilities, mines, and contractors. One reason why it is practical to sell in this way is that there is a relatively small number of buyers, and they often buy in quantities large enough to reduce the salesmen's expenses to a very small percentage. With the basic raw materials, sales are practically never made in lots of less than one car. Large producers are much more likely to sell direct than small producers. A large steel company like the Carnegie Co., will have its own sales organization and branch warehouses in different parts of the country, and sell nearly its entire output direct to consumers. The smaller mills are more likely to supply the steel jobbers. With lumber, the larger mills very often have their own salesmen and sell direct to large manufacturers and contractors. The smaller mills will sell through brokers, called commission men in the trade, wholesalers, or sales agents. The large coal mining company may have a complete sales organization with salesmen in various cities to sell to manufacturers, public utilities, or retail yards. The small mines commonly sell through a sales agent, a broker called a "jobber," or a wholesaler. Steel and parts for machines are

[4]On the subject of parcel post shipments read article in *Amer. Econ. Review*, September, 1916: "Marketing Farm Products by Parcel Post," by B. H. Hibbard and Asher Hobson.

commonly made to the order of the buyers. This makes direct negotiations between buyer and seller very desirable.

Integration.—There is a tendency for the manufacturer of the finished product to acquire ownership of the concerns producing the raw materials and parts. This is a form of integration. Such joint ownership does away with a part of the expenses of selling and purchasing departments. Obtaining the raw materials and parts then becomes pretty much a matter of requisitioning and bookkeeping with arbitrary prices fixed.

Selling problems.—Raw-material salesmen ordinarily visit the buyers to submit bids or samples. The buyers are generally experts and often buy on the basis of chemical analysis or physical tests. There is little room for advertising except on a "service" basis, and buying tends to become scientific. Quality, price, and delivery are the controlling factors. When these are practically the same for all sellers, purchases are likely to be made on the basis of business relationship, or personal friendship. The freight rate is frequently the deciding factor. In some industries, lumber for example, it is the custom to name prices, "f.o.b. mill." In other cases, Portland cement for example, prices are quoted on a "delivered" basis, the seller absorbing the freight. In the steel industry, the common practice throughout the East and Central West, is to quote all prices on a Pittsburgh basis. Under this plan, the buyer pays freight from Pittsburgh whether the steel is shipped from Pittsburgh or not. For example, a concern in Kansas City buys steel made in Chicago, but pays the freight rate from Pittsburgh instead of Chicago. This plan places all sellers on the same basis so far as price comparisons are concerned, but may be declared illegal as being an unfair method of competition.

Equipment.—Heavy machinery is generally sold direct to the user by the manufacturer. Machinery may be made to order to meet the particular needs of the buyer. In this case, the salesman is likely to be a technically trained man and he often becomes practically a part of the buyer's organization in developing designs and seeing that the machinery is properly installed and operated. New designs are constantly being developed. Sometimes the buyer's engineers take the initiative and ask the producers to coöperate with them in perfecting the design and building the machine. Again the producer

may take the lead and ask the user to give the new design a trial. Large turbines, dynamos, locomotives, and presses are examples of machines commonly built to order.

Other machines that are not so highly specialized or so large may be carried in stock by the manufacturers, but are seldom handled by dealers, owing to the small number of buyers in any one community and to the large amount of capital that would be required. With such equipment, a local "agent" working on a commission basis may be used to find new prospects and to report when buyers are in the market. With smaller machines and tools, there is a tendency for them to be carried in stock and sold by supply houses. When we come to equipment in common use, such as artisans' tools, we find it carried by the wholesale and retail stores. Showcases, and other fixtures, typewriters, adding machines, filing devices, calculating machines, mimeographs, multigraphs, and various other kinds of office machines are, or until recently have been, sold direct. Many things for use on the farm, such as fruit trees, lightning rods, and threshers, have also been sold direct.

Selling problems.—The quality of equipment depends upon the design as well as upon workmanship and raw materials. Most equipment is branded and reputation counts for a great deal.[5] Oftentimes one company controls patents which give it a decided advantage on certain products over its competitors. Producers commonly advertise extensively in trade papers and try to build up good will for their brands. Salesmen generally are technically trained or practical men who can install, adjust, or repair the equipment and give the buyers advice in making their selections. Oftentimes credit is an important matter in making sales. Equipment manufacturers may extend liberal credit to the buyers. Sometimes they help in the promotion of companies, using the type of machinery produced in order to make sales. In such cases they may sell on long-term notes, or take stock in the new enterprise, hoping to sell the stock when the concern is on a paying basis.

Consumption goods.— Most manufacturers of consump-

[5] "Westinghouse" and "General Electric" for dynamos; "McCormick" and "Deering" for harvesting and haying machinery; "Oliver" and "Deere" for plows; "Baldwin" and "American" for locomotives; "Disston" and "Simonds" for saws; "Yale" and "Corbin" for locks; "Underwood" and "Remington" for typewriters are examples.

tion goods sell through the dealers, but there are quite a few who sell to the consumers direct through specialty salesmen. This method may be used by concerns that are unable to dispose of their products satisfactorily through the regular trade channels. They may have a new product, the demand for which must be created. The dealers have their hands full with their ordinary lines, and few will put sufficient sales effort into an entirely new product to bring it into general use. It may be an unknown brand in a highly competitive market. The dealers may have full stocks of better advertised or better known brands. Unless the dealers are offered exceptionally large profits, the majority of them are likely to refuse to handle the unknown brands. Instead of spending large sums for advertising, the manufacturer may choose to employ a number of salesmen and have his product sold from house to house. This is not necessarily a cheaper way of selling than advertising and the employment of salesmen to sell to the dealers. The producer may, however, lack the capital for an extensive advertising campaign, or he may lack faith in advertising. Some concerns sell from house to house when they are small and find no other outlet for their goods, and keep this method when they become larger. Other concerns sell direct to the consumers when their product is new, and when it becomes well known, have it sold by the dealers. Some concerns selling from house to house employ advertising as an aid to their salesmen in disposing of their goods. Some of the problems of building and supervising a force of specialty salesmen are outlined in Chapter XXVII. Such salesmen must generally receive fairly large commissions because of their small daily sales. These commissions, plus the cost of hiring, training, and supervising them, and of packing and shipping goods in relatively small quantities, may give total selling expenses as high as those of selling through the wholesalers and retailers.

This method of selling seems to be more used in the rural districts than in the cities, owing to the fact that the salesmen can secure interviews more easily, and that the rural merchants carry a smaller assortment of goods. A great variety of goods is sold in this way. Articles for household use, especially new devices, are most frequently sold by specialty salesmen. Cooking utensils, electric devices, kitchen water motors,

musical instruments, books, wall maps, pictures, and brushes are examples. Kitchen cabinets and ranges have often been sold in this way. Hosiery, sweaters, raincoats, clothing, grocers' specialties, soap, and medical preparations are other articles that are not infrequently sold through specialty salesmen. Bakeries and ice factories are examples of manufacturers that frequently sell direct because of the perishability of their products.

The specialty salesman or "agent."—The salesmen selling from house to house have brought many new articles into common use. Among such articles might be mentioned cooking stoves, typewriters, sewing machines, electric and gasoline irons, vacuum sweepers, kitchen cabinets, aluminum cooking utensils, washing machines, and many other articles now in common use and generally considered as necessities. Many people have a tendency to scorn the salesman doing house-to-house work. It must be admitted that some poorly trained, unscrupulous, and tactless people have been employed as "salesmen." Yet if we consider the introduction of labor-saving devices and new products as contributing to our well-being and happiness, then we must admit that such salesmen have been our benefactors. Articles sold by personal solicitation today may be carried as staple merchandise by the stores tomorrow. The "book agent" and correspondence school salesman have undoubtedly contributed to the cause of education.

Types of specialty salesmen.—All specialty salesmen do not call on the consumers. Generally, the salesmen selling raw materials and equipment are called specialty salesmen also. The same is true of many salesmen selling to dealers. The word "specialty" is used to describe three classes of salesmen: first, a salesman for a new product that is not yet in general use and requires strong selling efforts; second, a salesman for a novelty which sells because of its newness or unusualness or that is supposed to sell only at certain seasons; third, a salesman for one article or a small line of products. In the third sense, a specialty salesman is contrasted with the salesman of the jobber or full-line manufacturer. In the grocery field, the manufacturer's salesmen are often called specialty salesmen to distinguish them from the wholesaler's salesmen. Specialty salesmen thus sell everything from life

insurance to steel, from books to locomotives, and from soap to turbines. They generally represent the manufacturers rather than the dealers, but this is not true in all cases.

Manufacturers' retail stores.—Some manufacturers have established their own retail stores. This may have been done because of dissatisfaction with sales to the retailers, or to secure a more dependable outlet for their goods. The chains of stores operated by the manufacturers of shoes are notable examples of the manufacturer's retail stores. The shoe companies often make a full line of shoes and so can supply a complete stock for their stores. Further mention of such chains of stores will be found in Chapter XVII. The operation of retail chain stores requires such a large capital outlay and involves so many problems of management and supervision that most manufacturers are now very cautious in starting such chains. Unless a manufacturer disposes of his entire output through his own stores he may find it difficult to cut the prices owing to objections made by the independent retailers handling his goods. The operation of the manufacturer's stores involves all the problems of other retail stores. It is very doubtful if such stores, except in a technical sense, should be considered as a method of direct selling. The problems of merchandising involved in store operation are discussed in later chapters.

Manufacturers selling by mail.—Quite a number of manufacturers have adopted the policy of selling all or a part of their goods by mail solicitation. This may be done by concerns which have not succeeded in selling their goods satisfactorily through dealers, or by new or unknown companies. Goods sold direct by mail have been sold generally in fairly large units in order that the cost of handling the order, and packing and shipping the goods may be held down to a low percentage. Quite a number of concerns are, however, now soliciting orders for one dollar or less. Almost any kind of merchandise, except highly perishable articles or very technical machines, can be sold by mail. Cream separators, gas engines, fencing, trees and shrubbery, seeds, candy, clothing, lumber, and books are a few examples. Selling by mail saves the expenses of salesmen, but involves large expenses for advertising in periodicals, and by catalogues, circulars, and letters; for handling the mail; and for assembling

packing and shipping small lots of goods. In spite of such expenses, many mail-order concerns claim that they can undersell the local merchants. This claim is, however, disputed. It is hard to ascertain the truth of such claims owing to variation in the quality of most kinds of merchandise.

A further discussion of mail-order selling will be found in Chapter XVI.

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Perhaps the best material on mail-order specialty and house-to-house selling is that which appears from time to time in the various business periodicals, such, for example, as *Printer's Ink, Sales Management, System,* and *Printer's Ink Monthly.*

Questions—Chapter VIII

1. A city with a population of 25,000 in a good farming community, proposes to expend several thousand dollars to provide a farmers' market in the hope that it will cut down the cost of produce to the consumers. Several years ago such a market existed. In recent years local farm produce has been peddled from house to house by the farmers or sold by them to the retail grocers, or in the case of chickens, butter, and eggs, to the wholesale produce dealers. If you were a resident and voter of this town, would you vote for or against the proposal? Why? Would your answer be the same for a city of 150,000?

2. A town of 10,000 inhabitants located in a mixed farming section has in the past been supplied with fresh milk by from four to six dairy farmers (the number varying from time to time), who operated their own wagons; and by cows kept by individual families in the town. The amount of milk produced by each dairyman was so small that the cost of delivery was relatively high. Also these farmers were not equipped for properly handling and bottling the milk. Sometimes there was not enough milk to meet the demands of the town and at other times the farmers had a surplus which they could not dispose of at a

profit. It is proposed, now, to establish a distributing company which will buy the milk from the farmers and deliver it to the consumers. This company will have proper equipment for separating, pasteurizing, and bottling the milk. It will also be equipped to make all surplus milk into butter.

What will be the advantages of such a company to the farmers; to the residents of the town?

The farmers, of course, will receive a lower price for their milk than when it is sold to the consumers. Will this make dairying more or less profitable to them?

3. What are the difficulties involved in the farmers selling their produce to the city consumers by parcel post? What are the advantages of this method to buyers and sellers when successful?

4. In what ways may the manufacturer sell direct to the consumers? Are the consumers benefited by such direct methods? Why, or why not?

5. What is the Pittsburgh basing plan or "Pittsburgh Plus?" Do you approve of such a system of price-making? Why, or why not?

6. A concern manufacturing stoves, ranges, and furnaces had seen a steady decline in its sales in recent years. It manufactures an excellent product, the owners being practical men and experts on production. The stoves and ranges made by this company formerly were handled by many dealers and the company had large sales and satisfactory profits. The company attributes its troubles to competition and advertising by larger companies. Many dealers have discontinued handling its stoves, and put in competitors' lines. This company is handicapped by the lack of distributing warehouses at different distributing centers. Also it is able to keep only 2 or 3 salesmen on the road. This means that many dealers are visited only once a year. A study of the company's files shows that the accounts of many dealers have been lost owing to poor salesmanship and the tactless way in which requests from dealers for adjustments and extensions of credit have been handled.

In order to avoid eventual bankruptcy this concern is considering direct selling to the consumers either by mail, or by specialty salesmen. The company asks your advice as to the proposed change in selling policy. What would each of the proposed methods involve? What would you advise this company to do?

7. Why have manufacturers of office appliances and machinery so commonly sold direct to the users? When firmly established in the market, should such goods be sold by independent dealers? Why, or why not?

Chapter IX

BROKERS AND SALES AGENTS

Definition of Broker, Sales Agent, and Commission Merchant

Broker.—An agent is one authorized to represent and act for another; "brokers are agents whose regular business is to make contracts without having possession of the goods, or to negotiate for the purchase of property, or for loans, or for insurance and the like."[1]

A broker, then, is an agent who specializes in selling or buying for his principal without actually having possession of or title to the goods, and who receives his compensation in the form of a commission, a percentage of value, or a flat rate per unit of property bought or sold. A broker's function is to make contracts for the purchase or sale of property, or to bring buyers and sellers together, and his commission is ordinarily earned as soon as a sale is made, regardless of whether the goods are ever delivered or not.

Sales agent.—A sales agent is one who has the right to make sales for his principal, and generally has much fuller powers than the ordinary broker. A sales agent very often has the exclusive right to dispose of the entire product of his principal, or the right to handle all of the product sold in a certain specified territory, as for example, New York, New Jersey, and Pennsylvania.

The work performed by sales agents differs in different trades. The Federal Trade Commission has defined a sales agent as follows for the canned salmon industry: "A sales agent is a broker who has the right to sell all or a specified part of a canner's output, or to dispose of all of it except the portion sold to certain persons or in specified places."[2] This

[1]Huffcutt: "Elements of Business Law," page 230. "A person whose business is to negotiate purchases or sales of produce or merchandise for others shall be regarded as a broker," Bulletin No. 271 of American Wholesale Coal Association.

[2]Federal Trade Commission: "Report on Canned Foods, Canned Salmon," page 22.

is practically the same definition as given by Copeland for a selling house in the textile trade. In the canned foods markets, a broker will very often do a general brokerage business and at the same time act as sales agent for one or more canners. In this case, the broker, acting as sales agent, does not ordinarily have a national organization and so effects sales in all territories, except that near his office, through other brokers.

In the sale of lumber, the sales agent turns over all the business he secures to the mill or mills he represents. The sales agent generally gets a salary in addition to his commission. In the sale of bituminous coal, the sales agent attempts to dispose of the entire output of the mines he represents. He thus takes the place of, or acts as, the sales department for the mine operator.

The product of many textile mills has been marketed by so-called selling houses. These houses are really sales agents who either control or finance the mills. The distinction between the selling house and the selling agent in the woolen industry is stated by Cherington[3] as follows: "Briefly, the distinction between the two is that the agency usually is financed by the mill, and performs the selling operations on an agency basis rather than as a regular commission house." In the sale of cotton cloth, the selling agent usually assembles a line of goods from non-competing mills and sells to the jobbers for the account of the mills. There has been a marked tendency in the textile trade in recent years to eliminate the selling houses and substitute selling agents, or brokers; or for the mills to sell the wholesale trade direct.

Commission merchant.—A commission merchant is one who receives for sale goods belonging to another, has control of the goods, and who must account to the owner for the proceeds of the sale. A commission merchant is sometimes called a factor. The term "factor" is not in general use in the United States. The factor is thought of by some as having broader or fuller powers than are given ordinarily to commission merchants. For example, he may be given power of attorney and act as agent in other ways than in the sale of goods.

The work of a broker at times closely resembles that of a commission merchant. Both sell goods belonging to others

[3]Cherington, Paul T.: "The Wool Industry," page 121.

for a commission. There is, however, at least in theory, a clear distinction. The broker effects sales of goods which he does not have in his possession and which he does not represent himself as owning. On the other hand, the commission man has the goods in his possession and makes delivery to the buyer, and the buyer may not know that the goods are not the property of the commission merchant. The broker is paid a commission by his principal while the commission man collects for the goods, deducts his commission and any expense, and remits the balance to the owner with an "account sales."

This distinction is clear in theory but is not always so in actual practice. The broker may have the goods in his possession and may make deliveries to the buyers. The broker also may make collections for his principal, and adjust disputes with the buyers. Then again, he may receive goods for sale on consignment. These are, however, extra or special services which brokers may at times render in order to secure satisfied principles, and are not included in a strictly brokerage business. In performing these services he is in reality acting as a commission man, or factor, rather than as a broker.

Merchandising broker.—Many brokers, in addition to selling goods for others, buy and sell goods on their own account. This latter is a merchandising and not a brokerage function. Brokers who engage in merchandising have been called merchandising brokers. Brokers handling merchandise as contrasted with stocks and bonds are sometimes called merchandise brokers. The terms "merchandising" and "merchandise" should not be confused. Many brokers do little or no merchandising, while others have come to do largely a merchandising business. In such cases it would appear that they should be considered as wholesale dealers conducting a brokerage business "on the side."

In the sale of lumber, the broker, called commission man, turns the orders over to the mill, collects his commission, and is through with the transaction. The wholesaler, on the other hand, has no warehouse but has the cars of lumber shipped in his name, bills them to his customers and extends credit to the buyers. He also carries the risk of a loss on the transactions.[4]

[4] "The Lumber Industry in the United States," by John G. Arnold, thesis for B.S. of Ec. degree, at the University of Pittsburgh.

In the marketing of bituminous coal, the broker sells in competition with the independent wholesalers who buy the coal outright.

Overlapping of activities.—It must be remembered that men engage in business to make money, and not to conform their activities to theoretically defined fields. If a man enters the brokerage business and finds an opportunity to handle profitably some goods on consignment, he may be expected to handle them. If he finds that he must render extra services in order to satisfy his principals, he may be expected to perform the services, and if he sees an opportunity to make money by purchasing goods on his own account, he will be likely to do so if he can obtain the necessary capital. It is well to remember this in the study of any given type of middleman. Their actual operations may not conform exactly to the definition laid down for their particular business.

Buying Brokers and Agents

In some trades, the buyers employ buying or purchasing agents to keep in close touch with market conditions and to make purchases for them. Such agents may only negotiate contracts for the purchase of goods, or they may inspect, receive and store the goods for shipment to their principals. They may be paid on a commission basis or receive a flat sum at so much per month, the amount depending upon the services rendered. Such buying agents are often used in the purchase of hardware, dry goods, and women's ready-to-wear clothing. These goods are manufactured to a large extent by small specialty producers who are unable to keep in close touch with all of the buyers; and as the producers are so numerous, the buyers are unable to keep in constant touch with them. For this reason, the buyers located outside of the producing centers, find it advantageous to employ buying agents who are in close touch with the sources of supply and with actual market prices, and who can buy the desired goods quickly and on advantageous terms. They may be able at times to secure quantity discounts which would be beyond the reach of the individual buyer—wholesaler, department store, or chain store. Some hardware jobbers purchase a considerable part of their goods through such purchasing agencies in order to get the special discounts which such agencies are in a position to

secure, while others employ such agencies principally to ascertain the actual prices at which goods can be purchased, but buy nearly all of their goods themselves. The quantity discounts secured by the purchasing agency may be very important to the small jobber, while the large jobber may be in a position to obtain such discounts on his own purchases.

In the speculative exchanges there must, of course, be as many buying as selling brokers. Buying brokers are also common in the purchase of fruit, vegetables, and imported groceries. Jobbers in small cities are often unable to keep in daily touch with the large produce markets and so employ brokers to purchase a goodly part of their merchandise. Small buyers even in the larger cities sometimes employ brokers to purchase fruit for them at the fruit auctions. The use of such brokers saves the smaller buyers the time necessary to sit through the daily sales. In fact many such dealers cannot afford the time to attend the auction sales, and without such brokers would be forced to buy from the wholesale dealers who purchase the fruit at auction. This practice also lessens the number of buyers, and hence the competition at the auction, and so has a tendency to lower prices. Wholesalers in interior cities sometimes employ brokers in New York to buy imported goods for them.

The general method of operation followed by buying brokers or agents, is not fundamentally different from that which is followed by selling brokers and agents. Their activities will not be separately considered in this chapter.

Functions of Brokers and Sales Agents

Specialized independent salesmen.—Brokers and sales agents are specialized independent salesmen. They take the place of salesmen employed directly by the seller of the goods. Their success depends upon their ability to negotiate sales successfully and to keep their principals satisfied. As a rule, they confine their activities to one line of merchandise or to a small class of articles. They thus may become experts in the marketing of these lines, and know very intimately the supply of and demand for the articles handled.

They are especially valuable in reaching wholesale dealers in small towns, and in serving small producers who, because of their size, would find the maintenance of their own selling

organizations very expensive. A small manufacturer may turn the marketing of his entire product over to a sales agent. The manufacturer may know little about marketing and his entire time, energy, and capital may be needed in production. The sales agent may furnish the most economical method by which a small manufacturer can market his product. Perhaps he pays the sales agent five per cent, while the expense of maintaining his own sales department might be much higher. Dissatisfaction with such agents appears to come from their failure to turn in orders to keep up with the increasing capacity of the factories, more frequently than from the rate of commission charged. As the business grows there is a tendency to do away with sales agents and sell through several brokers. The use of brokers is adapted to producers who are in a position to exercise a general supervision over the marketing of their product but who are not in a position to keep their own salesmen in constant touch with the buyers in the different markets. Many large producers who have their own salesmen often employ brokers so that they will always have a representative in every important market. Even manufacturers selling to the retail trade may employ brokers to dispose of any surplus goods.

Giving information.—A very important service performed by brokers is the giving of market information and advice to their principals. The brokers are in daily and hourly touch with price fluctuations; they should be acquainted with the supply and demand of each article handled, and should be able to judge of the future trend of prices with some degree of accuracy. Their advice to their principals as to when to sell and what price to accept is sometimes very valuable. Many producers say that they could dispense with the selling services performed by the brokers, but that the information and advice which they give alone justify the commissions paid to them.

Financing principals.—Another function very commonly performed by sales agents, and to a less extent by brokers, is the financial aid extended to their principals. It may at first appear anomalous for an agent to finance his principal, but, nevertheless, this is exactly what often happens. The financial aid may take the form of direct loans; the endorsement of the principal's notes; the advancement of money

against the shipment or storage of goods; the guaranteeing of accounts resulting from the sale of goods; or the supplying of permanent capital.

In the textile trades the selling houses dispose of the products of the mills, and frequently endorse their notes, guarantee their accounts, or directly advance them money. The charge for selling the cloth may be one to two per cent, the charge for endorsing the mills' notes may be one to two and a half per cent, and the charges for guaranteeing the mills' accounts from two to two and a half per cent. Many of the small Southern cotton mills whose credit has not been well established have been forced to pay three and a half to four per cent for the services of the selling house in the sale of their goods and the endorsement of their notes. As the mills become larger and their credit becomes better they can borrow directly from the banks. The larger mills are also able to keep in close touch with the cloth market. They then tend to break away from the selling houses and sell through brokers whose commission is much less, perhaps only one-half of one per cent, or to establish their own selling offices. The selling house, in order to keep its business, may purchase a controlling interest in the mills.[5]

Other services performed by the brokers may involve the collection of accounts, the making of adjustments in the case of disputes, accepting goods for sale on consignment, and the handling of goods and making delivery to the buyers. A typical example of the latter is the handling of pooled cars. A pooled car contains small shipments for different buyers forwarded to one consignee, or sent from several sellers to one buyer to get advantage of the carload freight rate. The broker may act as the consignee, have the car opened, and see that the goods are delivered to the proper parties. He may also receive cars of goods before they are sold, sell them, and have delivery made from railroad freight house, or failing to sell, place them in storage. In looking after the interests of his principals, the brokers may be called upon to render a variety of services which are not in the strict legal sense a part of the brokerage business.

[5]Copeland, Melvin T.: "The Cotton Manufacturing Industry of the United States," page 216, and Cherington, Paul T.: "The Wool Industry," pages 117-127.

Operations of Brokers and Sales Agents

Organization.—Brokers and sales agents may operate as individuals, as partnerships, or as corporations. The size of their organization depends upon the size and nature of the business transacted. Often a broker conducts a strictly one-man business with no place of business except desk space in some office or in his home. "Has his office in his hat" is the trade expression. If the business is larger, the broker may have a single room for an office and employ a stenographer and bookkeeper. As the business increases, the organization expands accordingly, until we find the large brokerage houses with suites of offices, ample show rooms, and numerous salesmen, bookkeepers, and stenographers.[6]

Little capital required.—To conduct a strictly brokerage business requires very little capital. All that is needed is enough working capital to pay rent, salaries and miscellaneous expenses until sales are negotiated, deliveries made, and commissions collected. This time varies from a few days to several months according to the commodity handled. It is often said, however, that to conduct a brokerage business successfully one must have either a considerable amount of capital or credit, as it is often necessary to finance certain shipments of goods; for instance, to remit to the seller before collection is made. If the broker engages in the merchandising business, a much larger capital is needed, but the amount needed may be much less than would appear at first glance for the reason that the goods are often stored in public warehouses and almost their full value borrowed on the warehouse receipts.

Selling ability necessary to success.—The success of a broker depends upon his ability to secure goods for sale, and to make sales which are satisfactory to his principals. The ability to make good connections with the buyers is one of his most valuable assets. Personality plays a large part in making sales, especially when handling standard articles where there is little variation in price, and it is in the sale of such articles that brokers are frequently found. As very little capital is required to enter the business and as the earnings of successful brokers are very large, competition is generally keen. A

[6]The single building at 100 Hudson Street, New York City, houses a veritable colony of brokers handling various kinds of groceries.

broker with a wide personal acquaintance among the buyers, however, has a distinct advantage over the broker whose acquaintance with the buyers is limited. A man with well-established relations with a few large buyers may be able to sell more goods in a morning than a new salesman can in a week. The sellers want to secure the best representation for their goods and so try to select as their representatives the brokers with the best connections and the most selling ability. This makes it difficult for new or unknown brokers to enter the field, as no selling broker can succeed unless he has goods to offer. This difficulty is, however, mitigated by the fact that where there is no exclusive agency a seller may be willing to accept satisfactory sales for his goods negotiated by any reliable broker. Brokers trying to establish themselves, at times split their commission with the buyer or other brokers in order to make sales. For example, if their commission is two per cent they may give one per cent to the buyer as an extra inducement to buy. This extra one per cent may be all that is needed to make the sale. The seller may get his quoted prices or the broker may induce him to give the buyer a discount of one per cent. Old established brokerage houses often regard such a practice as "unfair" and opposed to trade ethics. It is, however, hard to condemn such a practice completely, for without it, it would be more difficult for a new broker to establish himself in business. In case one broker has goods but no buyer, while another broker has a buyer but no goods, it is not unusual for them to get together, make the sale, and split the commission.

Must know supply and demand.—Besides having sales ability a successful broker should be thoroughly conversant at all times with the supply and demand in his market. Brokers often keep in very close touch with the needs of the buyers. Stories have been told of the broker knowing more about the stocks of goods in the hands of the buyers than they themselves did.

Prices.—A broker is supposed to represent the interests of his principal. If a broker represents a seller he is supposed to watch out for the seller's interests and make the most favorable sales possible for him. It is thus the duty of the broker to get the highest possible price for the goods sold. As a matter of fact, however, a broker is often more inter-

ested in making a sale than in holding out for the highest price. For example, suppose a broker working on a two per cent commission is trying to close a sale for 1,000 units of an article selling for $1.90 at $2.00. If the sale is made at $2.00 his commission will be $40, and if the sale is made at $1.90 his commission will be $38, or only $2 less. The broker very naturally does not wish to run the chance of losing the sale for the sake of the $2.00 commission, and hence may advise his principal to sell at $1.90. From this example it can be seen that a broker's interest is to make sales and a slight difference in the selling price means very little to him. From this it is plain that the broker's interest is not always identical with that of his principal.

Canners often suspicious of brokers.—Among the vegetable canners there has been a somewhat widespread feeling that the brokers have not always fully represented their interests. It has been charged that some brokers have tried to reduce the canners' price quotations by sending them misleading market reports. For example, a broker might report the price of a certain sale as the prevailing market price, while as a matter of fact the goods involved in the sale may have been of poor quality or the sale may have been made on special terms which the brokers failed to mention. The broker in this way hoped to get his principals to reduce their prices so that he could undersell other brokers and increase his business. If several brokers tried this scheme they might lower the prevailing price considerably. Some of the canners' associations have taken steps to stop such practices. When such a case of underquoting the market has been detected, the facts and the name of the broker have been at times sent to all members of the association. As no broker can afford to be singled out as an enemy to the canners, this has been a very effective way of checking the practice.[7]

Authority in fixing prices.—A seller may give his broker the right to fix selling prices or may limit him to sales made at prices fixed by himself. The prices of many commodities are constantly fluctuating and it is very difficult for the principal, especially if he is located outside a large market, to keep the broker constantly advised of what he considers a fair price.

[7]See Report of Federal Trade Commission on "Canned Foods, Fruits and Vegetables," 1918, page 80.

In such cases the broker may be instructed to go ahead and solicit orders, but to submit all offers to the owner of the goods for approval. This involves a considerable loss of time, especially if the buyer is located in an out-of-the-way community, and sales may be lost because of the inability of the broker to close the sale immediately. To overcome this difficulty the broker may make sales "subject to confirmation of price" by the owner of the goods. Such sales become binding contracts as soon as the owner confirms the price. If the price fairly represents the market and the broker regularly represents the owners of the goods, such sales are ordinarily confirmed as a matter of course. In other cases the broker may have full authority to complete the contract for the sale of the goods as long as the price is within certain limits named by the seller.

The owner of goods may give the broker a free hand in fixing the selling prices. This practice is, however, much more common with sales agents than with brokers. Sales agents have greater powers than brokers, receive larger commissions, and have larger interests in the success of the producers represented. The smaller manufacturers, who are, as a rule, the ones who employ sales agents, are the very ones who are unable to keep in close touch with market conditions. For this reason they often give their sales agents almost full authority in the marketing of their products.

Tend to lower price.—The question may be asked: "What effect do brokers have on prices?" From what has been said it would appear that they tend to lower rather than raise prices. This is apparently borne out by the fact that in the grocery markets, the wholesalers as a rule feel very friendly toward the brokers and believe that they serve a very useful function while many of the manufacturers are sceptical of their value and use them from necessity rather than choice.

The Federal Trade Commission in its investigation of the canned salmon industry found that during 1917 the median (average) price received by the Pacific Coast brokers was eleven cents higher on the goods handled on a merchandising basis than on the goods handled on a brokerage basis. In the Eastern portion of the country the median price was twenty-six cents higher on their own goods than on goods owned by others and sold on a brokerage basis. The Commission also

found that the canned-food brokers made much larger profits on merchandising than on brokerage sales. In 1916, reports from eight brokers showed that seven of them realized from 1.8 to 20.7 per cent more profit on their merchandising than on their brokerage business. In eight months of 1917 the merchandising profits of the three brokers covered by the report exceeded their brokerage profits by the following percentages: 3.0, 7.3, and 16.8.[8]

These facts indicate that the brokers do not secure as high a price for goods sold for others as they do for their own goods. In other words, goods handled on a commission basis are sold for less than could be obtained for the same goods if they were owned by the brokers. These reports, however, covered periods of rising prices; whether similar profits would be made during a period of stationary or falling prices is an entirely different matter. During such periods the brokers are likely to make relatively small profits on their merchandising business, and so limit such transactions.

Brokerage contracts.—The principal may make a written contract with his brokers or sales agents, specifying the powers and duties of the brokers or sales agents, the rates of commission to be paid, and territories covered if exclusive territories are assigned. Very commonly, however, no formal contract is made, the broker acting under either a verbal agreement or under conditions outlined in letters between the two. Such agreements are generally made in accordance with the common practices within the trade, and if a dispute arises over a point not specifically covered by the agreement it is settled in accordance with the prevailing trade customs and practices. Such customs and practices are generally well understood by the men engaged in many trades, and for this reason it is often felt that nothing is gained by signing an elaborate, formal, written contract.

Number of Brokers

Articles sold.—It would be extremely difficult to enumerate all of the different commodities sold by brokers or to approximate the total number in the United States. They seem to sell everything from commercial paper to ships. They are common in the sale of real estate, stocks and bonds, com-

[8]Federal Trade Commission, "Canned Foods: 'Canned Salmon,' page 56 (see also p. 67); 'Fruits and Vegetables,'" page 50.

mercial paper, cargo space on vessels, insurance, foreign exchange, grain, fruit, vegetables, butter, eggs, chese, hay, cotton, canned goods, groceries, textiles, coal, steel, coffee, chemicals, and many other articles.

The activities of brokers apparently center in two classes of articles. First are those articles produced by a large number of small producers who are not in a position to keep in touch with the markets and sell direct to the wholesale and retail dealers. In this class are fruits, vegetables, canned goods, textiles, and coal. Second are those articles not adapted to sale by the common trade channels owing to either their bulk, or to the limited number of buyers. Real estate cannot be moved, and coal is too bulky to be moved oftener than is absolutely necessary. The number of buyers for insurance policies, foreign drafts, and steel billets is limited, and highly specialized salesmen are needed for their sale. The brokers dealing in articles falling in the second group are experts, in that they are thoroughly familiar with small, highly specialized markets. These brokers furnish an excellent example of middlemen, highly specialized as to function, and carrying on their operations for a very low rate of commission. Freight forwarders may be regarded as performing a specialized function in attending to the details of making export shipments, but they may engage the necessary cargo space through freight brokers; place the marine insurance through insurance brokers; sell the drafts through foreign exchange brokers; and arrange with custom house "brokers" to attend to the details and the red tape of getting the goods through the custom houses. They often find it cheaper to employ such brokers for the work than to attend to the detail of all these operations themselves.

No accurate figures available.—No accurate figures are at hand showing the total number of brokers in the various trades. An accurate census is difficult to take owing to the lack of uniformity in the definition of the term and to the fact that many persons styling themselves brokers do very little brokerage business, while many persons and firms not called brokers do a considerable brokerage business.

The United States census for 1920 reports 29,233 stock brokers, and 16,248 brokers and promoters whose class is not specified.

Number of brokers handling typical commodities.—Thomas' Grocery Register for 1919 lists between 3,600 and 3,700 brokers handling some of the various articles coming under the general head of "groceries." These lists, however, include the various branches of a single brokerage concern and also many brokers in small towns who do very little brokerage business and whose brokerage business is often a "side-line." About 700 of these brokers are members of the National Canned Foods and Dried Fruit Brokers' Association.

There are said to be from 800 to 1,000 brokers in the country handling sugar. Copeland reported 39 cotton cloth brokers in New York City and stated that there were many others in such cities as Boston and Fall River.[9] Cherington[10] reported 280 selling agents, or dry goods commission houses, which handle woolens and worsteds in New York, Boston, Philadelphia, and Chicago. Over 80 per cent of the canned salmon is marketed through sales agents and brokers. The various produce exchanges of the country have from 50 to 2,000 members each. Some of these may not be brokers, but there are, on the other hand, brokers in these markets who are not members of the exchange.

Rates of Commission

Rates generally small.—The rate of commission charged by brokers generally varies from a small fraction of one per cent to five per cent. Higher percentages, however, are not unknown. The commission paid to sales agents may go considerably higher than five per cent. The rate of commission paid for selling different articles is generally pretty well understood and fairly uniform in each market. The rate depends upon the value of the articles sold, the services rendered by the brokers, the amount of competition among the brokers, and the common practice in the past.

In the New York stock market the brokerage depends upon the price of the stock bought or sold, the rate varying from 7½ to 20 cents per share, according to the price. The common rate on bonds is ⅛ of one per cent of the par value.

Rates on Chicago Board of Trade.—The following are the minimum rates of commission on the Chicago Board of

[9]Copeland, Melvin T.: "The Cotton Manufacturing Industry in the United States, 1912," page 216.

[10]Cherington: "The Wool Industry," page 125.

Trade.[11] On grain purchased outside of Chicago from non-members to be shipped to Chicago: wheat, ¾ of one per cent with ¾c. per pushel as minimum; corn and rye one per cent with ¾c. per bushel as the minimum; oats one per cent with ½c. per bushel as minimum. When purchases are made from members, these rates are somewhat lower, as follows: wheat, ½ of one per cent with ½c. per bushel as minimum; corn and rye, ¾ of one per cent with ½c. per bushel as minimum; oats, ¾ of one per cent with ⅜c. per bushel as minimum. These rates are to cover all incidental expenses incurred in handling and financing the purchases and do not apply when transactions are not financed. Members in soliciting such business may employ "solicitors" at a fixed salary or other members as "brokers" at ⅛c. per bushel. As the members have such grain in their possession, and as such grain may be consigned to them by country shippers, this is a commission rather than a brokerage business.

Members may act as brokers, and on strictly brokerage sales where no financing is done the minimum rates are much lower. The rates depend upon the nature of the transaction but the following are typical. For the sale or purchase by *grade alone* for immediate or future delivery in store or in regular houses: wheat, corn or oats, 10 cents per 1000 bushel in lots of 5000 bushels or over and 15 cents per 1000 bushels in lots of less than 5000 bushels; for rye, barley or flaxseed, 25 cents per 1000 bushels.

Rates on smaller exchanges.—The rates of commission vary somewhat on the various produce exchanges. The following rates, adopted by the Grain and Hay Exchange of Pittsburgh, may be taken as typical of the rates on the smaller exchanges: wheat and rye, one per cent with a minimum of 1½ cents per bushel; shelled corn and oats, one per cent with a minimum of one cent per bushel; ear corn, one per cent with minimum of two cents per bushel; hay, five per cent with minimum of $1.00 per ton; bran, middlings, and mill feed, five per cent with maximum of $1.00 and a minimum of 75 cents per ton.[12] The rate on strictly brokerage business in Pittsburgh is from ¼ to ½ of one per cent.

[11] In effect Feb. 15, 1918, quoted from constitution and by-laws contained in annual report for 1917.

[12] *Pittsburgh Grain and Hay Market Reporter,* Aug 6, 1920.

Change from unit to percentage basis.—Before the war the prevailing rates on most of the grain exchanges were fixed in accordance with the number of units sold—a fraction of a cent per bushel. But with the increase in the price of the grains which called for more money to finance the transactions and with the increased operating expenses, the rates were, in many instances, placed on a percentage basis, with a minimum rate of so much per bushel to protect the broker in case of a fall in price. This movement from a flat rate per unit to a percentage basis is by no means limited to the sale of grain. When brokerage rates are on a percentage basis, an increase in the selling price of the goods automatically increases the amount of brokerage. The increase from this source during the war was ample in most cases to cover the increased operating expenses of brokers. During a period of falling prices, the brokerage received may decline more rapidly than operating expenses and may offset the extremely large profits made by many brokers during the period of rapidly rising prices.

Rates on canned foods.—The prevailing rate of brokerage for the sale of canned foods is two per cent on the selling price,[13] although rates as low as ½ of one per cent and as high as 7 per cent have been reported. Sales agents ordinarily receive 5 per cent, but rates as high as 10 and even 13½ per cent have been reported, while one large salmon canner pays only 4 per cent.[14]

Rates on insurance and ships.—Marine insurance brokers are paid from 2½ to 5 per cent.[15] During the war, ship brokers were paid three-quarters of one per cent, but after demobilization and a fall in the price of ships this rate was raised to one and one-quarter per cent.

Rates on cloth.—Cotton cloth brokers receive ½ of one per cent according to Copeland[16] but the Bureau of Foreign and Domestic Commerce[17] states that the brokers generally are paid 1½ per cent when selling cloth for export. Brokers

[13]The *Produce Reporter* for 1920 gives 2½ per cent as the customary rate.

[14]Federal Trade Commission: "Report on Canned Foods, Vegetables and Fruits," pages 19 and 50; "Canned Salmon," pages 22-26.

[15]Hough: "Practical Exporting, 1919," page 433.

[16]"Cotton Manufacturing in the United States," page 216.

[17]"Selling in Foreign Markets," pages 514 and 516.

buying cotton cloth for foreign importers receive from 2 to 5 per cent, 3½ per cent being a common rate. English brokers are usually paid one per cent when selling cotton cloth for export. The differences in these rates seem to depend upon the services rendered in different kinds of transactions.

Selling houses receive a higher rate of commission. The rate charged the Southern Cotton Mills as reported by Copeland in 1911 was 3½ to 4 per cent. Cherington reported that there was no uniform rate for the sale of woolens, but that 2 per cent was the prevailing rate for staple goods while the rate for seasonable or style goods might be as high as 5 per cent.[18]

Rates on foodstuffs.—In the sale of fruit, vegetables and dairy products, the brokers are often paid on the basis of the number of units sold or bought. The *Produce Reporter* for 1920 reports that rates vary so much that "it is inadvisable to say with any degree of certainty what should be paid in the absence of agreement as has been done previously," but reports the following as being the consensus of opinion as to the customary rates: apples $15 a car, 10c. a barrel, 5c. a box, and 5c. a cwt. if in bulk; potatoes, old $10 a car, new $15 a car; cantaloupes $25 a car; hay and straw $5 a car; watermelons $10 a car; table grapes $25 a car, and so on. The common rates in the Pittsburgh market are ¼ to ½c. a dozen on eggs; ¼c. a pound on cheese; and ⅛ to ½c. a pound on butter, depending on the quantity sold.

Rates on anthracite coal.—The brokerage actually earned by the anthracite coal sales agents is given by Mr. W. Jett Lauck, consulting economist for the United Mine Workers of America, as follows: All sizes of coal, 21 cents per ton in 1914 and $1.62 per ton in 1920; chestnut coal, $1.19 per ton in 1914 and $3.29 per ton in 1920.[19]

Other examples of brokerage rates might be given, but it is believed that the foregoing are sufficient to give a good idea of the prevailing rate of commission paid to brokers and sales agents for the sale of various commodities.

Reasonableness of rates.—It is difficult to make a general statement as to whether brokerage rates are reasonable or not. Relatively few figures are available showing the actual

[18]Cherington, Paul T.: "The Wool Industry," page 120.

[19]*Journal of Commerce*, July 19, 1920.

operating expenses of various classes of brokers. It will be shown in the following section that the net profits of the well-established brokers in some lines are very large. It must be remembered, however, that a part of these figures were gathered during a period of rising prices, and that they do not include the small brokers who are just managing to make a living.

Net Profit of Brokers

The gross earnings of a broker depend upon his success in making sales or purchases. The prevailing rates of commission are ordinarily sufficient to allow the efficient brokers to pay expenses and make large profits. If a broker is successful his net profits are large. If he is unsuccessful his net profits are small. The field is highly competitive, but success is generously rewarded.

Hard to get average figures.—It would be very hard, if not impossible, to gather any figures that would reveal the average net earnings of the brokers in the various trades for the reason that there are so many small, irregular, or part-time brokers. In the gathering of any figures these are likely to be overlooked, and even if found, many of them probably would be unable to make an accurate report of their earnings and expenses. Figures referring to the net earnings of brokers are likely to cover only the better established and more successful ones.

Return for personal services and for capital.—In the conduct of a pure brokerage business, little capital is needed and the net profit is very largely a return for personal service. The capital invested is so small that a calculation of the percentage of net earnings on investment would be misleading if not entirely useless. If, however, a merchandising business is done, or if many producers are financed, a considerable amount of capital is required, in which case the percentage of net profits earned upon the capital investment is very significant. As a matter of fact, a broker often does some pure brokerage business, some merchandising business, and perhaps also finances, or helps to finance, a certain number of producers or shipments. In this case the net profit is partly a return for personal services and partly a return upon capital. The apportionment of the net profits between personal services and

capital is, in many cases, extremely difficult, and can be done only after a full consideration of all the facts in each case. As these facts are seldom available to an outsider, such an apportionment is generally impossible.

Returns for personal services.—Perhaps the best way to obtain a fair idea of a broker's net earnings is to include interest upon the invested capital as an expense and to consider the remaining net earnings, including salaries for the owners, as a return for personal services. On the other hand, the salaries of the owners can be eliminated from expenses and the percentage of total net profits upon capital computed. The elimination of the salaries of the owners from "expense" is necessary in either case, for the reason that many brokers consider the net profits as the returns for their personal services, and so take the bulk of the net profits out of the business as salaries for themselves and not as dividends or "profits."

The Federal Trade Commission has published figures showing the net earnings of a large number of canned-food brokers. These figures may be taken as representative of the net profits made in these years by well-established brokers in the grocery trade. After allowing six per cent interest upon the investment, it was found that the average net earnings for the personal services of the active owners of thirteen canned-salmon brokerage firms and eight general canned-food brokerage firms during 1916 and 1917 were as follows:

	1916	1917
General Canned Food Brokers	$37,416	$62,263
Canned Salmon Brokers	48,133	64,634

The largest firms were not included in computing these averages, and as most of the firms included had only one or two owners active in the business, it is evident that they were handsomely rewarded for their services in both of these years.

Returns on capital.—The Trade Commission has also presented the percentages of net profit made by these brokers upon the invested capital. The salaries of the owners or officers, but not of employees, are included with the profits (eliminated from expenses) for the reason explained above. The percentages of net profit were as follows:[20]

[20]Federal Trade Commission: "Report on Canned Foods: Canned Salmon," 1918, pages 64-67. Similar figures are given on page 53 of the report on "Vegetables and Fruits" for another list of general canned food brokers.

General Canned Food Brokers	*Per Cent Net Profit On Investment*	
	1916	1917
Broker No. 1	119	174
" " 2	130	222
" " 3	114	130
" " 4	6	24
" " 5	275	652
" " 6	53	66
" " 7	272	520
" " 8	25	253
Average	101	148
Canned Salmon Brokers		
Broker No. 1	110	77
" " 2	21	34
" " 3	534	773
" " 4	31	90
" " 5	38	37
" " 6	29	44
" " 7	38	147
" " 8	218	170
" " 9	39	100
" " 10	148	93
" " 11	119	124
" " 12	20	18
" " 13	14	18
Average	43	54

These percentages show the high average net profits of the canned-food brokers and the wide variation in the net profits made by different individuals or firms. The reader should, however, be again cautioned to bear in mind the fact that many brokers have very little investment, for which reason some of these percentages have little significance. For example, canned-salmon broker No. 3 had an investment of only $7,306. Similarly, general canned-food broker No. 5 had an investment of only $5,606. On the other hand, canned-salmon broker No. 2 had an investment of $385,377 in 1916; and canned-salmon broker No. 5 had an investment of $306,253 during 1917. The average investment of the canned-food brokers was $39,247 in 1916, and $43,781 in 1917; and of the canned-salmon brokers $112,459 in 1916, and $119,209 in 1917.

As many of these figures are incomplete for 1917 they are not reproduced here. The percentages of net profit on investment for 1916 were as follows: 211; 107; 41; 47; 78; 284; 321; 231; 57; 126; 69; 8; 47, and 35.

Earnings of Princeton graduates.—Figures of the average earnings of the class of 1901 of Princeton University, ten years after graduation, show that the brokers were by far the most prosperous group. The average salary of the brokers is given as $18,900 while the next highest average salary was $6,098 made by the manufacturers. These figures are inconclusive for the reason that the number of members of each group is not shown, so that the average of any group may be seriously affected by one or two exceptional individuals.

The figures presented above may be insufficient to show large average net profits for brokers as a class, but they are believed to be typical of the net profits made by the successful and well-established brokers in properous years.

Conclusion as to Usefulness of Brokers

Economy of brokers.—The brokers serve a useful function in bringing buyers and sellers together and in negotiating sales without actually handling the goods. Ordinarily they sell in large quantities without having the expense of warehousing, delivering and so forth, for which reasons they can operate very cheaply. It is economical in the distribution of goods to reduce the moving, storing and handling of goods to a minimum, and it is apparently in the interest of efficiency to substitute middlemen acting on a brokerage basis for those acting on a merchandising basis wherever possible.

The development of brokers should be encouraged when they replace middlemen with higher operating costs. It is an entirely different matter when, instead of acting as a substitute for less efficient distributors, they act as middlemen between existing middlemen and so increase the number of middlemen between the producer and the consumer. Owing to specialization of function, an extra middleman may tend to decrease the total marketing expense, but the author believes that in the majority of cases the effect is just the opposite—to increase the total expense.

Merchandising business not justified.—It is hard to find any economic justification for the merchandising business done by the brokers. If the merchandising broker replaces the wholesaler and sells the retail dealers direct, then he is misnamed, for he is a wholesaler and not a broker. In the marketing of some commodities the merchandising function may be

necessary between the producer and wholesaler to adjust the supply of, and demand for, the commodity, for example, to prevent buying and selling between wholesalers. Such commodities are, however, the exception and not the rule. The author is convinced that the great bulk of the merchandising business done by the brokers, aside from the business done in their capacity of wholesale dealers, is purely speculative.

Encourage speculation.—A very serious criticism of the brokers is that they encourage speculative transactions. Brokers often do not stop to think whether the sales being made pass the commodity on toward the consumer or not. Perhaps, under the competitive system, they could not be expected to refuse to make sales or purchases because such sales or purchases did not get the commodity any closer to the consumer. Many brokers not only do not discourage speculative sales but actually encourage people to speculate in order to earn commissions on such transactions. Practically any article can be speculated in—potatoes, onions, tinned milk, sugar, butter, eggs, shoes, textiles, coal, steel, and so on. There is a great difference of opinion among both business men and economists as to whether such speculation serves any good purpose or not. The public, however, generally condemns such speculation as inimical to its interests. It is generally recognized by students of marketing that regulated speculation in standard graded commodities on large well organized exchanges, like the Chicago Board of Trade, serves many useful purposes. The speculation in graded commodities on organized exchanges, however, is one thing, while the speculation in ungraded articles by private sales outside the regulations of organized exchanges is an entirely different thing. It is extremely doubtful whether the latter type of speculation serves any good purpose, and much evidence tends to show that it is opposed to the interest of the public. This question of speculation is too big a subject to be discussed fully in this chapter, but if it be admitted that purely speculative transactions are wrong, then many brokers must come in for a good deal of condemnation for not only being a party to, but actually encouraging, such transactions.

We then heartily endorse the regular work of the brokers in negotiating sales between the producers and the wholesale and retail dealers or between producers of different products,

but we seriously question the desirability of their merchandising business and their business in effecting speculative sales.

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Questions—Chapter IX

1. Define or distinguish broker, sales agent, commission merchant, and factor. What is a merchandising broker? A merchandise broker?

2. What power does a broker generally have in fixing selling prices? Do the operations of brokers tend to raise or lower prices? Why?

3. Why does a broker sometimes handle goods, collect accounts, and finance shippers?

4. What is a pooled car? Why are pooled cars sometimes consigned to brokers?

5. What are common brokerage rates for the sale of canned vegetables, cotton cloth, butter, wheat, potatoes, and stocks?

6. Upon what does the success of a broker depend? What opportunity does the brokerage field offer the young man starting in business?

7. If you had a small tomato cannery in Maryland, would you sell your product through brokers? Why or why not? If you employed brokers, what authority would you give them in fixing selling prices? If you did not employ brokers, how would you dispose of your product? What would be the advantages of employing a sales agent, as against the use of brokers?

8. A very large part of the grocers' specialties is marketed through brokers. A medium sized manufacturer of a breakfast cereal is dis-

satisfied with this volume of sales and asks your advice about selling the wholesale grocers direct? Would such a change be desirable? Would it likely increase his sales? Would it likely decrease the cost to the wholesaler? Discuss.

9. Suppose the above manufacturer decides to employ specialty salesmen to call upon the retailers? Would it be advisable to retain the brokers? Why or why not?

Chapter X

THE SALE OF GOODS AT AUCTION

Private and public sales.—Goods may be sold privately by negotiation between buyer and seller, or publicly at auction to the highest bidder. The former is the more common and widely used method, but the latter is much more widely used than many people suppose.

Goods sold at auction.—Auctions of second-hand furniture, antiques, novelties, real estate, and live stock are very common. Every class of goods from jewelry to railroads is auctioned off at forced sales. Unclaimed freight is auctioned off by the railroads in "old hoss" sales. The laws of many States require that goods sold for charges, or in the settlement of debts under certain conditions, be sold at auction. A very considerable part of the oranges, lemons, grapes, bananas, pineapples, grapefruit, boxed apples, and a part of some other fruits, is sold at auction in the Eastern markets. Auction sales are also very important in the sale of live stock, tobacco, furs, rugs and carpets, nuts, olives, dried fruits and other articles.

Decline in auction sales.—The auction method of selling is, however, apparently not as important in the United States as formerly for the sale of raw materials and standard merchandise. The use of auctions for the sale of such commodities appears to be more general in England than in this country.[1]

The auction method of selling was formerly very important in the United States for the sale of both cotton and woolen goods, coffee, tea, cotton, hardware, shoes and furniture.

Fruit has been sold at auction for nearly 100 years. Cotton cloth was sold at auction prior to 1816, or almost as soon as our mills were prepared to turn it out in large quantities. This was a common method of selling imported goods, and

[1]In 1908, 26 per cent, and in 1909, 17 per cent of the foodstuffs sold in the Halles Centrales, in Paris, France, were sold at auction.—Federal Trade Commission, "Wholesale Marketing of Food," page 251.

was applied to textiles of domestic production. The sale of cotton goods at auction continued in New York until 1897. In 1851, $7,500,000 worth of dry goods (2-3 foreign and 1-3 domestic) were auctioned off in New York. As time passed, cloth came to be sold by commission houses and the auctions were used only for the sale of the surplus goods. Owing to the rapid changes of styles, the mills came to produce less and less surplus stocks of staples during dull periods, and with the development of market organization, the auction sales were abandoned. They were revived to dispose of surplus stocks during 1920 and 1921, and are still used to a limited extent for the sale of dry goods and clothing.

The sale of coffee, tea and cotton was taken over by the organized produce exchanges.

Sale of wool at auction.—Wool is sold at auction in many European cities, notably London, Liverpool and Antwerp and in several cities in Australia. The London auctions are the center of the world's wool trade. The sale of wool at auction was tried in New York in 1894, but failed because of the variation in the quality of American wools, the high handling costs involved in the arrangement, and the poor management of the enterprise.[2]

Other products.—Leaf tobacco is sold to the manufacturers by auctioneers for the account of the growers in the tobacco warehouses in the producing sections. Auctions are important in the sale of furs. The St. Louis and New York auctions have been notably important during recent years. The fruit auctions held regularly in the large Eastern markets are probably the most important of the wholesale auctions at present held regularly in the United States. Their annual sales in 1921 amounted to approximately $148,000,000. Bananas are auctioned on the pier as they are unloaded from the vessels. The buyers bid on each wagonload as it comes from the vessel's side. The sale of rugs and carpets at auction was revived after the war and has proved very successful.

Characteristics of auction sales.—Characteristics of auction sales are that they are open to the public and that goods are sold to the highest bidders, unless, as is sometimes true, the seller reserves the right to reject any and all bids. Anyone is free to attend and to make purchases in compliance with the

[2]Cherington, Paul T.: "The Wool Industry," pages 66-72.

rules under which the sales are conducted. The fact that auction sales are public would indicate that they are the fairest type of sales. This is generally true but all too frequently auctions have been manipulated by artificial bidding by agents of the owner of the goods or by combinations among the buyers.[3]

All prospective buyers should have an opportunity of closely inspecting the goods offered for sale. This opportunity is granted in most cases but if it is not, the buyers may well be suspicious of the goods offered for sale unless offered by a regular wholesale auction where samples are shown.

Gives full play to law of supply and demand.—An auction sale is often said to give the freest play to the law of supply and demand, and hence to make sales at exactly the prices dictated by this law. The amount of goods for sale is known and competition between the buyers is supposed to measure the demand. As a matter of fact, however, demand seems to be relatively more important at auction sales than at private sales. An article is offered for sale; if several want it and competitive bidding starts, the price will be forced up perhaps to an unreasonable height. On the other hand, if there is only one bidder he may buy the article "for a song." This appears to lead to widely fluctuating prices, which are in many respects undesirable. There is always the possibility of the buyers uniting and refusing to bid against each other. In such a case the owner of the goods may be justified in bidding on his own goods. In order to be successful there should be keen bidding

[3]An instance of an auction which failed to establish a price based on competitive bidding, and which has been criticised as a "fake," was that of raisins offered for sale by the California Associated Raisin Co. on August 2, 1920. This company has so nearly a monopoly of the raisin industry in the United States that it has been the object of governmental investigation and prosecution. Apparently to avoid fixing the prices of raisins for the 1920 crop itself, it announced a public auction of 100 cars of loose muscatel raisins to be held in New York City on August 2, to fix the opening price. At this sale 150 cars were sold, 149 being bought by an independent raisin packer, in whose interest it was to keep the price of raisins high. The first car was bought by a wholesale grocer, but resold after the auction to the same packer at an advance in price. Notwithstanding the fact that throughout most of the sale there was only one buyer, the latter bid the price up on himself. See copies of *The Journal of Commerce* for the last week of July and the first week of August, 1920, especially the issue of August 7, 1920. The Federal Trade Commission in its report on the "Wholesale Marketing of Foods" (pages 178-180), lists other ways in which auctions have been criticised for certain practices.

among the buyers and this element of competition is one of the chief characteristics of most successful auction sales. There should also be no withdrawal of goods by sellers, nor bidding in of their own offerings.

Auctions contrasted with sealed bids.—In many ways an auction resembles the sale of goods to the one submitting the highest sealed bid. In both cases sales are made to the highest bidder and every one is free to bid. There are, however, two important differences. First, the sealed bids are not public, and, second, "crowd psychology" is lacking. The public bidding and the crowd psychology are two of the chief characteristics of auction sales.

Goods sold "as is."—Most goods sold at auction are sold "as is," and the buyer has no recourse if he finds the goods not as good as he had supposed or if he finds a defect in the goods not known at the time purchased. An auction sale is a sale where the term *caveat emptor* (let the buyer beware) fully applies. At times goods are sold by sample or grade, but generally the buyers have the right of carefully inspecting the goods before bidding.

In the sale of fruit there is no guarantee that all of the goods are of the quality shown. Most fruit sales are not made technically from sample, in that the buyer is not allowed to claim that the goods are not of as good quality as that displayed.

Establishment of price.—An auction sale is the best way of selling goods for which there is no established market or no ready guide as to value, as for example, old paintings or furniture. The auction is often resorted to for the sale of goods which must be sold quickly and for which there is no well established market price. This often means that such goods are sold at a sacrifice, but if two or more buyers want the same article a very good price may be received for it. In fact, when two persons start to bid on the same article their desire to outdo each other, or the fact that they dislike to be outdone in public, may lead them to bid the price above the fair market value. On the other hand, if bidding is not keen, goods may be sold very cheaply. This hope of picking up bargains is in fact one of the chief factors in bringing many people to retail auctions.

Formerly the prices of several staples were determined

at auction, as is still the case in England and Australia with wool, but in many cases auctions have been replaced in the United States by the organized produce exchanges which seem to be better adapted for this function. The auction is, however, a quick and cheap way of selling more or less standardized goods at wholesale, and is still largely used for the sale of fruit.

The fruit auctions.—There are approximately two dozen fruit auctions in the United States as follows: New York, four; Chicago, Boston, Philadelphia, Pittsburgh, and Baltimore, two each; Cincinnati, Cleveland, Detroit, St. Louis, Newark, St. Paul, Minneapolis, and New Orleans, one each.[4] There are also two f. o. b. auctions. Some fruit is sold at auction in other cities; for instance in Columbus, Toledo, Milwaukee, and Denver. One of the regular auctions is in the South, and the others are in the East and Middle West. Some of them, however, handle other things besides fruit. Quite a variety of agricultural commodities are sold at the auctions in the seaport towns. Fruit, nevertheless, makes up the bulk of the sales of all the fruit auction companies.

The kinds of fruit sold vary slightly from one auction to another, but the principal varieties are: oranges, lemons, limes, grapefruit, grapes, bananas, pineapples, and boxed apples. Most of the boxed apples come from the far West. The other fruits sold come principally from California, Florida, or foreign countries.

Graded v. ungraded fruit.—Most of the fruit sold by the auction companies is carefully graded. In New York, goods are sometimes auctioned from sample without the buyer having an opportunity of inspecting the entire lot. As a rule, however, the buyers have the opportunity of inspecting each shipment carefully and are not forced to buy by sample. Advocates of the auction method of selling claim that the buyers have as good an opportunity of inspecting the fruit as if it were purchased at private sale, and in most instances this seems to be true. A common rule of the auctions is that all goods are bought "as is," by which arrangement the buyer has no recourse if he finds the goods are of poorer quality than he thought when bidding. For this reason many claim that only

[4]The actual number varies from time to time as old auctions quit business and new ones are organized.

goods graded strictly according to recognized standards can be successfully sold at auction. On the other hand, advocates of the auction method of selling argue that this is not necessary, as the buyers have the same opportunity of inspecting the goods sold at auction as the goods sold privately; and that they could buy goods not carefully graded just as safely at auction as at private sale. It is argued that the Eastern fruits and vegetables, which are not usually as carefully graded as those from the West, could be successfully sold at auction. This might be true if the system were once generally established, but several attempts to sell such fruits and vegetables at auction have failed for reasons which will be discussed later.

Large volume of sales.—The business done by many of these auctions is quite large. Including imported goods, the auctions probably sell close to 100,000 cars of fruit and vegetables annually. This is equal to more than 10 per cent of the total carload shipments of fruits and vegetables in the country. Only a very small part of the vegetables are sold at auction, while probably one-fourth or one-third of the fruit moved in carlots is sold in this way. It is not uncommon for auctions located in large cities to sell 20 or 30 cars of fruit within a few hours. In order to sell so rapidly the buyers must buy in relatively large quantities, and the various auctions have rules fixing the minimum quantity that can be purchased. The Union Fruit Auction in Pittsburgh, for example, fixes 20 packages as the minimum for all goods except lemons, for which the minimum is 10 packages.[5]

This rule in practice limits the buying to dealers or to very large consumers. The time required to attend these sales is so great that the buyers are generally limited to the wholesale dealers and a few of the larger retailers. It is not uncommon, however, for the large retailers to employ brokers to buy for them, or for several small dealers to pool their interests and have one of their members attend the sales and buy for the entire group. As a rule, anyone is free to buy at these auctions, and a credit for a short period, for example,

[5]It often happens, however, that a small lot or "line" is received in a car, or that less than 20 packages of a large lot or "line" is left after the former buyers take what they want. In such cases these goods must be sold in less than the specified minimum quantities.

10 days, is extended to the buyers. Unknown or unreliable buyers must pay cash. As such fruit is ordinarily sold within a few hours, or at most within a few days after its purchase, it is evident that the buyers need little or no capital of their own.

Most of the fruit sold at auction is sold for farmers' cooperative associations, generally through a local salaried representative, and for carlot receivers. Most of it is bought by produce jobbers, buying brokers for jobbers and retailers, wholesale grocers, peddlers, hucksters and retailers.

F. O. B. auctions.—In the summer of 1923 an auction was started to sell cars of produce while in transit, the prices being on an f. o. b. basis at the shipping point. So far, principally Western and Southern fruits have been sold, although some vegetables are handled. The buyers have no chance of inspecting the fruit prior to purchase, all sales being made on the basis of grades established by government inspection. A full description of each car is printed in the catalogues and given to the buyers at the branches of the auction in different cities. On the basis of these descriptions, the sales are made. As sales are made by the car, the buyers are limited to carlot dealers or brokers representing carlot buyers. Since this auction permits all carlot buyers to buy on the same basis, it may limit the business of certain brokers and carlot dealers who do not break the cars. The various cities having branches of this auction—Pittsburgh, New York, Boston, Philadelphia, St. Louis, Chicago, Cleveland, Buffalo, and others—are connected by telegraph, and buyers in all of these cities bid on the cars of fruit simultaneously. In spite of the number of cities involved, sales are made very rapidly, a rate of one car a minute not being unusual. The original f. o. b. auction company reports such success that a competitor has appeared.

One of the most interesting points in connection with the development of the f. o. b. auction is the fact that sales are made purely on the basis of government inspection and printed description, without the buyers seeing the goods. If goods can be sold in transit on the basis of description, the question arises as to whether the same goods cannot be resold in the terminal markets on the same basis. Another inspection would, however, have to be made to determine the condition of the produce at the time of arrival. If sales in the terminal markets

can be made on the basis of grade, the methods of sale in these markets, especially the methods employed by the less-than-carload fruit auctions, may be affected.

The following description of one car of grapes is given to show how carefully produce offered for sale by an f. o. b. auction is described. This description is taken from the catalogue of The National F. O. B. Auction Co., of December 5, 1923.

For account W. F. Toomey & Sons

No. 51. PFE 3943 Shipped Dec. 1. Fresno, Cal. SP UP CNW Chicago

1080 lidded lugs Emperors, net 27,998# (SELL BY LUG)

GOV'T STATE INSPECTION. Loose in lugs, lugs level full, clusters and berries from small to large, mostly medium, berries practically free of mildew, 12 to 14% soft, crushed and otherwise defective berries, remainder load fairly good quality, stems fresh and show mildew discoloration, berries firmly attached, stock good color. Average sugar content 21.5%.

Rates of commission charged by the fruit auctions.—The auction companies charge the sellers a commission on all sales made. The rates vary somewhat in the different cities, and the rates charged by a certain auction company may vary for different classes of goods or for different sellers. The rates of commission charged by the less-than-carload fruit auctions in the terminal markets vary from one per cent to four or five per cent, but the common rates are from one and a half to two and one-half per cent of the sale price. In addition, some fruit auction companies make an extra terminal or delivery charge of three to five cents a package.

Services performed by the fruit auctions.—On its part, the auction company arranges the fruit by brands for inspection, prints the catalogues, conducts the sale, collects, and remits the proceeds to the sellers. In some cities the fruit is also unloaded from the cars by the auction companies.

Ownership of fruit auctions.—The auction companies are generally owned by men in the trade and operated for profit. The success of an auction depends upon the ability to obtain large offerings of well-known brands of fruit and to attract large numbers of buyers. The affiliations of the auction company with the large dealers in the market is very important. Competition between the large dealers interested in an auction company, and others who are not interested in it, has often resulted in keen rivalries to throw business to the auction or to

keep business away from it. In certain instances such rivalries have led to the establishment of competing auctions. The buildings in which the auction sales are held in some cities are furnished rent-free by transportation companies. When the amount of business transacted and the rates of commission charged are considered, it is commonly believed that many of the auction companies earn very handsome profits on their investments.[6]

Suggestions for extension of auction sales.—The fruit auctions have attracted considerable attention among students of marketing. Some students have been so impressed by the success of these auctions that they have advocated their extension to other commodities, especially to other varieties of fruits and vegetables. A wholesale market operating at a cost of from 1½ to 2½ per cent, as many of the fruit auctions do, is undoubtedly an economical selling method. It is true that this does not cover the entire wholesale marketing cost at present, as the auction companies do not ordinarily act as consignees and the out of town sellers must have local agents or representatives to look after their interests. Further, the auctions do not ordinarily place the fruit in the hands of the retailers, and a great deal of it must pass through the hands of the wholesaler or jobber between the auction company and the retailer. It is argued, however, that the auction company could act as consignee for goods and remit the proceeds directly to the country shipper.

Proposal for government supervision.—Some go even further and say that the auctions should be under government supervision, or that a public representative should be present to whom growers or dealers could consign their goods with the assurance of getting a square deal and receiving the actual market price on the day of the sale. There have been a great many instances of growers being unable to find a satisfactory market for their produce. The suggestion of publicly-supervised auctions, to which these growers, or the local buyers, could consign goods at any time and feel assured of receiving

[6]For example, The Independent Fruit Auction Co., of New York, started business in May, 1921, with a paid-in capital of $500,000. In addition to paying bonuses of one-fourth of one per cent on sales to both buyers and sellers, it had paid $351,000 in dividends up to November, 1923. *Journal of Commerce*, November 19, 1923.

the actual market price, less a very small commission, is worth careful study and serious consideration. It must not be supposed, however, that such auctions could receive small lots of ungraded goods directly from the farmers; for the sale of such goods would destroy the economy of the auctions and defeat the purpose of the plan. Neither must it be supposed that such auctions would always assure the country shippers of a profitable outlet for their goods. In case of a large supply or a glut in the market, such goods might sell for less than the transportation costs. The yield of fruits and vegetables is so dependent upon the weather that there is apparently no way of accurately adjusting the amount grown to the needs of the city population at all times. Some improvement over the present system, which allows goods to rot on the farm for lack of a market while the city consumers are paying high prices for similar goods, should be possible. In this connection, the suggestion for publicly-supervised auctions should be seriously studied. The auctions should be operated in connection with the central wholesale markets discussed in Chapter V, in case these central markets are established.

A cheap method of selling.—Those advocating the extension of the auction system are impressed by the economy with which sales are made. Selling goods at a cost of 1½ to 2½ per cent is in reality cheap. This low cost is made possible by the economy in the number of salesmen required. One auctioneer can sell as many goods as a dozen or more salesmen could at a private sale.

Is the auction method a cheap way of buying?—The auction is a cheap method of selling, but is it a cheap method of buying? Purchasing at auction requires a large amount of time on the part of the buyers. At private sales the buyers can visit several dealers, compare their prices and purchase an assortment of fruits in a relatively short period of time, or can order by telephone, while if purchases are made at auction they must sit through a large part of the session which may last for several hours. As fruits must be bought almost daily, this is a factor to be reckoned with. It is evidently impractical for the ordinary retailer to buy on the auction. He cannot leave his store long enough. He must buy from wholesalers or jobbers whose salesmen call on him, whose stores he visits, or with whom he can place his orders by telephone; or he must

employ agents or brokers to buy for him. The most practical way for the small dealers to buy at auction is to employ brokers or agents who attend the sales. These brokers must be paid a commission of say one or two per cent or a few cents a case. Even so, this may be a cheaper method of distribution than is now provided by the present wholesale system. The auction's commission plus the buying broker's commission would amount to only 3 to 5 per cent, which is less than the present cost of supplying the retailers. The dealers, however, would have to send their trucks after the goods or pay for having them delivered. The cost of delivery is too large to be overlooked. At any rate, the suggestion for the extension of the auction system under conditions allowing the free consignment of goods by country shippers is worth careful study. In all such studies the interest of the buyers as well as the sellers should be considered. It seems that one reason why the activities of the auction companies have not grown more rapidly is the fact that the buyers will not attend the sales if they can obtain desirable goods as cheaply at private sale. In other words, other conditions being equal, the buyers prefer to buy privately, and not take the time to attend the auctions.

Commodities adapted to sale at auction.—Those advocating the extension of the auction method of selling, want it extended to the sale of all kinds of fruits and vegetables; and some to many other commodities. To the layman it appears that bulk apples, sweet potatoes, and cucumbers are just as well adapted to sale at auction as boxed apples, oranges and grapefruit. He can see no inherent difference in the nature of these products. The opinions of the men in the trade differ on this point. Some claim that all fruits and vegetables could be successfully sold at auction, while others contend that this is entirely impracticable. The latter argue that vegetables and Eastern fruits are not standardized sufficiently to permit of their successful sale at auction, for the reason that the buyers can form no accurate idea of the quality of the entire shipment from the inspection of a sample or of a few packages. For example, the Pittsburgh auction started to sell barreled apples but the attempt was reported a failure owing to the fact that the barrels were "topped off." The auction advocates, however, reply that the buyers at auction have as good an

opportunity of inspecting the goods sold at auction as goods sold privately and can buy ungraded goods just as safely at public as at private sale. The buyers of the "topped off" apples might have been "stung" just as badly if they had bought goods privately from a wholesale dealer, unless the dealer had allowed a rebate. Those opposed to extending the auction sales advance other arguments, as, for example, that the receivers often do not have sufficient notice of the arrival of Eastern goods to allow the mimeographing of a catalogue, or that such goods are often received in such poor condition that they must be sold immediately on arrival and cannot wait their turn at auction. To such arguments the auction advocates reply that in such cases the auctioneer could go up and down the platform or track and sell the goods direct from the car doors, as is now done with bananas as they come from the vessels.

It is pointed out that the attempts to sell barreled apples, and cantaloupes and other vegetables at auction have generally proved failures; and that the sale of butter, eggs and poultry at auction in New York was discontinued. If such products were sold exclusively at auction, the results very probably would have been different. Nothing hurts a live stock auction more than to sell a few animals privately in advance of the "sale." Buyers do not care to bid on leftovers, and successful auctioneers often refuse to sell any animals in advance of the auction. When surplus vegetables are sold at auction the result could not be expected to be the best, and when new products are offered at auction it naturally takes some time to accustom the buyers to the new method. If all fruits and vegetables were sold in this way, the buyers would take it as a matter of course. The question is whether such a charge is desirable, and if so how can it be best done.

Effect of auction sales on prices.—There is a difference of opinion as to the effect of auction sales on prices. Some contend that they lead to higher prices while others argue just as strongly that they lead to lower prices. Sellers may be expected to sell in the way that they think nets them the highest price. Some large dealers regularly have their goods sold at auction, while others regularly sell their goods privately. Still others use both methods, selling privately or at auction as seems desirable from time to time.

Fluctuating or stable prices?—Another view is that the auctions do not influence the average prices but that they lead to highly fluctuating prices. Auctions give full play to the law of supply and demand. If the supply is small and the demand strong, prices soar. On the other hand, if the supply is large and the demand only moderate, prices slump. As one dealer expressed it, he wouldn't have the nerve to ask the prices sometimes received at auction. An anxious buyer may run the price up very high. In fact a part of a given "line" or lot often sells considerably higher than the remainder. Following out this idea, it is contended that in time of scarcity the buyers bid up the prices so high that the consumption declines, causing a slump in prices with resultant loss to both dealers and growers.

With auctions in operation, outside prices tend to follow the prices established at auction,[7] but it is argued that if the auctions did not exist prices would not be subject to such wide and frequent fluctuations, which are detrimental alike to the interests of growers, legitimate dealers, and consumers.

Still a third view is that auction sales tend to stabilize prices. Those holding this view say that auction sales are open, that the buyers know the available supply and that all buyers have an equal opportunity to bid. If prices go unreasonably high, they argue that the buyers will refuse to bid and hence the advance is checked. On the other hand, if the prices sag, the buyers will buy liberally in the hope of an advance, or of selling for large profits at retail. This liberal buying will help to maintain prices. Auction selling probably has stimulated the grading of fruits and this grading tends toward price stabilization.

There is not enough evidence available to enable us to draw definite conclusions as to the effect of auction sales upon prices. The fruit auctions handle goods that are better graded and

[7] "Rug prices broke from 10 to 20 per cent at the opening session of the big Alexander Smith & Sons Carpet Company $5,000,000 auction yesterday, and the effect was immediately reflected in the floor-covering market by drastic price cuts. Stephen Sanford & Sons, Inc., announced a decline of approximately 20 per cent in the price of seamless axminsters. George Nichols & Co. reduced prices on Roxbury seamed axminsters 20 per cent. W. & J. Sloane announced a reduction of 8 to 10 per cent on tapestry, velvet and axminster rugs. The Bigelow-Hartford Carpet Company made it known that they would maintain the prices named May 1 throughout the season." *Journal of Commerce*, May 13, 1924.

less perishable than most of the fruits and vegetables sold outside the auctions in the auction cities. This should mean that auction prices vary less than prices on such things as tomatoes, strawberries, cauliflower, and bulk apples sold at private sale. These articles vary more in quality than the goods ordinarily sold at auction. Many of them are also more perishable, and must be sold quickly regardless of how strong or weak the demand may be. Apples, oranges, lemons, and grapefruits may be bought as bargains and held for a few days for an advance in prices. Personally the author is inclined to believe that the auction method of selling makes for price fluctuations rather than price stability.

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U. S. Department of Agriculture: *Bulletins Nos. 266 and 267.* The Department has recently made an exhaustive study of the fruit auctions. When the report on this study is published in full, it will contain very valuable information on the fruit auctions in the United States. An abstract was published in the *Journal of Commerce* of April 28, 1923.

Questions—Chapter X

1. What are the characteristics of auction sales?

2. What can you say of the efficiency of the auction as a method of selling goods?

3. George Metzer conducts a retail grocery store in a residential district of a city of between 500,000 and 1,000,000 population. He handles both staple groceries and green goods and does a large delivery business. His store is located about 4 miles from the wholesale produce market. He takes or sends one of his delivery trucks to the produce market five or six times a week to purchase his supply of fruits and vegetables from the jobbers. During the winter months he sells from 50 to 60 boxes of citrus fruits and some 60 boxes of apples per week. Metzer is considering visiting the fruit auction two or three times a week, to purchase his citrus fruit and boxed apples. Should he do so? Why, or why not?

4. What are the disadvantages of the auction from the standpoint of the buyers?

5. What effect do auction sales have on prices? Discuss.

6. Would it be advisable to make the auction method of selling general for the sale of staple goods not handled by produce exchanges? Explain your answer.

7. A co-operative association of apple growers has adopted brands and expects to hold the growers strictly to definite standards. The apples are shipped in both boxes and barrels. In good years the association will have several hundred cars for sale. What will be the advantages of selling direct to wholesalers, of consigning to commission men, and of having the goods sold at auction?

Chapter XI

ORGANIZED PRODUCE EXCHANGES AND THE QUESTION OF SPECULATION

Controversy over the produce exchanges.—The usefulness of the produce exchanges and the desirability of their operations have been the subject of a bitter controversy. Many students of economics and business methods have pronounced the exchanges to be one of the most efficient, if not the most efficient, marketing methods yet devised. Mr. Herbert Hoover has said: "It is worth an exhaustive national investigation to determine whether an extension of a system of central markets would not afford great help."[1]

Spokesmen for the grain farmers, on the other hand, often denounce them. "The Chicago Board of Trade, as now conducted, is the world's greatest gambling institution." "No more infamous piracy has been attempted or perpetrated on the much victimized nation than the present bear raid in the Chicago grain pit."[2] The idea of those having such opinions seems to be that the traders on these exchanges unite in agreements to manipulate the market in such a way as to depress the prices and hence to injure the farmers. It is a purpose of this chapter to explain briefly what the exchanges are, how they operate, and how their operations affect the prices of the commodities dealt in.

What are the produce exchanges?—A produce exchange is an organization of dealers[3] in certain commodities, which provides a market place where the members meet at definite times and transact business under the rules laid down by the organization. In addition to providing a trading place and regulating the business dealings of its members, a produce exchange generally provides a method for settling trade dis-

[1] Writing in *Saturday Evening Post* of April 10, 1920.

[2] Senator Arthur Capper, of Kansas, quoted in the *New York Times* of December 5, 1920, and the *Nation's Business* of December, 1920.

[3] "Dealers" as here used includes brokers and manufacturers.

putes, establishes uniform grades for the commodities dealt in, and gathers and distributes market information. The exchange itself has no dealing in the commodities handled by its members. Its function is simply to provide facilities for the transaction of business and to regulate the business dealings of its members. The member who does not obey the rules of the exchange is subject to expulsion. Most of the produce exchanges in the United States are corporations, incorporated either under the general corporation laws, or under special acts of the State legislatures. A few are voluntary associations.[4]

As stated above the members of exchanges are dealers. They sell goods for country elevators, terminal elevators, country merchants, warehouses or any one else who has goods for sale. They buy goods for exporters, millers, manufacturers, and all persons who desire to buy in large quantities. Owners of large elevators, exporters, and manufacturers are very frequently members of the exchanges so that they can buy their own supplies and save the brokers' commissions. These commissions are, however, very moderate as was pointed out in the chapter on Brokers and Sales Agents.

Exchanges v. auctions.—In some respects a produce exchange resembles an auction. In both, goods are offered for sale and may be bid for by those present. In an auction the article goes to the highest bidder unless the seller reserves the right to reject all unsatisfactory offers. In an exchange there is no obligation upon the owner or his broker to sell at any price below the one at which the goods are offered. In an auction the auctioneer does all the selling, while on an exchange any member is free to make sales. Auctions and exchanges both may deal in graded or ungraded articles but the exchanges much more commonly deal in graded goods, for which there is a world price. The auction is open to the public while the exchange is closed to all but its own members so far as trading is concerned. Business on the exchanges is

[4]Duncan seems to consider all organized markets as exchanges. He so considers auctions, stock yards, municipal markets, etc. See Duncan, C. S.: "Marketing," Chapter 7. The coöperative marketing organizations of farmers, discussed in a later chapter, are often called exchanges. The author, however, considers only definite organizations having regular places of business, where the members make sales by grade or sample under definite rules, as organized produce exchanges.

carried on under much stricter rules than on the auctions. This explains why outsiders are not allowed to buy or sell on the exchanges, for trading is limited to absolutely responsible parties as all contracts must be scrupulously fulfilled. Auctions ordinarily deal only in "spot" goods while exchanges often deal in both "spots" and "futures," "futures" making up a large part of the business of some exchanges.

History of produce exchanges.—The produce exchanges developed from the old markets and fairs. For centuries sales were made after the buyer had inspected the goods. As long as actual inspection of the goods was necessary, business had to be transacted where the goods could be assembled. Some two or three centuries ago buying by sample became common and the markets were moved into nearby inns or cafes. From such locations it was logical for the dealers to provide their own assembly place and to exclude those who did not observe the established rules in conducting business. Produce exchanges are known to have existed in the sixteenth century. In the United States organized produce exchanges date back to the middle of the last century. The Chicago Board of Trade was organized in 1848, before a railroad had reached the city, and was incorporated in 1859. The New York Produce Exchange was organized in 1850 and incorporated in 1862. The St. Louis Merchants' Exchange assumed the function of an exchange in 1854. The Milwaukee Chamber of Commerce was granted a charter in 1868. The Kansas City Board of Trade was organized in 1869 and the Minneapolis Chamber of Commerce in 1881. The New York Cotton Exchange was organized in 1870 and the New Orleans Cotton Exchange in 1871.

Some important exchanges.—The Chicago Board of Trade and the Liverpool Corn Trade Association are two very important grain exchanges, although practically all large cities in the United States and many in other countries have their exchanges. The exchanges in Minneapolis, Winnipeg, and London should also be mentioned. The New York Cotton Exchange, the New Orleans Cotton Exchange, and the Liverpool Cotton Association are important exchanges for the sale of cotton. The Chicago Butter and Egg Board and the New York Mercantile Exchange are important in the sale of butter and eggs. The Elgin Butter Board was once very impor-

tant, and for years the price of butter established there was used as the basic price throughout the country. This Board, however, fell into disuse and was finally discontinued. There are butter and egg exchanges in many cities but for the most part they are only local markets. Ninety-seven per cent of the coffee imported into the United States passes through the Coffee and Sugar Exchange of the City of New York.[5] Sugar exchanges are located in New York and New Orleans. The New York Produce Exchange is important because of the number of different commodities sold upon its floor.

Commodities handled.—Some of the exchanges provide facilities for dealing in only one commodity. This is the case with the New York Cotton Exchange and the New Orleans Cotton Exchange. The Minneapolis Chamber of Commerce, the Duluth Board of Trade, and the Kansas City Board of Trade handle but little grain. On the other hand members of the many exchanges deal in a variety of products. The Chicago Board of Trade has four pits for future trading where wheat, corn, oats, and provisions such as lard, ribs, and pork are dealt in. A number of products such as grain, flour, hay, lumber, naval stores, oils, tallows, greases, vinegar, dried fruit and beans are dealt in by the members of the New York Produce Exchange, but trading is general only in wheat.[6] The members of the Boston Fruit and Produce Exchange deal in fruits, vegetables, butter, cheese, eggs, provisions, poultry, game, groceries, fish, and so forth.[7]

Spot v. future sales.—The business on the produce exchanges may be divided into "cash" or "spot" transactions, involving prompt delivery and acceptance of the goods sold; and "futures," or contracts involving future sales or purchases for delivery and acceptance at some specified time in the future. Cash sales may be made from sample or by grade. Tables are provided by most exchanges for the display of samples and around these tables buyers and sellers meet and carry on their business. The exchange primarily provides a meeting place for buyers and sellers, but it also prescribes rules for the conduct of business, provides machinery for the settling of all

[5]Duncan, C. S.: "Marketing," page 145.

[6]Carhardt, E. R.: "The New York Produce Exchange," *Annals of Am. Acad. of Pol. & So. Sc.*, September, 1911.

[7]Weld, L. H. D.: "The Marketing of Farm Products," page 265.

trade disputes, and insures both buyer and seller that they are dealing with responsible parties. The exchange thus has advantages over the old market places. The exchanges were organized to facilitate the conduct of cash sales, future trading being introduced in comparatively recent years. Future trading in grain started on the Chicago Board of Trade during the Civil War. Very little future trading is done on the smaller exchanges. The smaller exchanges may simply conduct daily "calls." At a specified time the members meet in the exchange room. Information is posted as to prices on the larger exchanges, receipts and visible supplies. The presiding officer calls for offerings which may be posted on a blackboard. Members bid on the offerings and whenever the price bid is as high as the price asked, a sale is made. If the price bid is below the offered price, no sale is made. For example, a member may offer to sell a car of a certain grade of eggs at 60 cents a dozen. Another member may bid 58 cents. No sale is made. The seller may then reduce his price to 59 cents. If the bid is raised to 59 cents a sale is made, but if the bid is not raised no sale is made unless the seller further reduces his price. On these smaller exchanges it often happens that few sales are made, the members coming together to find out what the other members have for sale, what other members want to buy and what the price tendency is. When the "call" is completed for offerings of all the commodities dealt in and for bids or inquiries for any goods not offered by sellers, the meeting is adjourned and the members retire to their offices and stores where most of the actual business is transacted.

It would seem that no valid objection could be made to the cash business done upon the exchanges. It certainly appears better to have such sales conducted publicly under definite rules than privately under no regulations. The belief, however, became common a few years ago that the members met on these exchanges and arbitrarily fixed prices. For this reason the Government intervened and ordered that any such practices be stopped as they are held to be illegal. The prices reported at present are the prices at which actual sales have been made. The number of sales made on many of the smaller exchanges is so small that representative prices cannot be said to be established and the local market quotations must be based on private sales reported by the dealers. Aside from

the belief current at times that arbitrary prices are fixed, no real objection has been made to the cash or spot business of the exchanges. Real objection is, however, made to future sales, for it is the future sales that most frequently involve the question of speculation. The controversy about the produce exchanges hinges principally on the desirability of future dealings, or speculation, and does not involve the cash business.

Public prices.—The large exchanges really establish prices, as the business transacted is large enough to reflect actual conditions. The actual prices are widely distributed. They go out constantly during trading hours by wire to brokers and newspapers in all parts of the country, so that they are easily and quickly available to all interested parties. Buyers and sellers can thus be informed and govern their actions accordingly.

Standardization.—Commodities can not be bought for future delivery until standard grades have been established, for the reason that the buyer would have no assurance as to the quality of goods that would be delivered to him. The process of marketing a product is much simplified when the product has been graded according to definite standards. One qualification of a successful buyer is the ability to judge quality. A great many consumers are poor buyers because they are unable to judge the quality of the goods purchased. The same quality shoes may be displayed in two windows at different prices, but the consumer often buys the more expensive shoe because he supposes the quality is better. The price cutter picks a standard article for his advertisements, for it is only on such an article that he can convince buyers that they are getting bargains. The price of an unstandardized article varies widely to both buyers and sellers. Not so with a standard article dealt in on central exchanges. The price of No. 2 red winter wheat is almost uniform at any time. Buyers will pay little if any more than the published price and sellers will sell for little if any less than this price. As the risk is less, dealers can handle standardized goods on narrower margins. Standardization is then beneficial to both buyers and sellers. Herbert Hoover has said, "If potatoes were standardized and sold on contract in a national market, protected from manipulation, three things would result. First, there would be a daily

national price known to growers. Second, by the sale of a contract for delivery the grower would be assured of this price. Third, the contract and directions for shipment would flow naturally to the distributor where the potatoes were needed and thus the present fearfully-wasteful system would be mitigated."[8]

Since standardization was necessary to future dealing, the exchanges took the lead in prescribing definite grades and providing inspectors. Much of this work has been taken over by the State and National Governments. There is a considerable difference of opinion as to how far standardization can be carried. Grains, cotton, canned goods, hay, butter, coffee and many other products have been fairly well standardized and the work of adopting standards for other commodities is going forward. It is, however, extremely difficult to adopt grades for highly perishable products, for the reason that the quality depends very largely on the ripeness or condition of the goods. The quality of such goods changes rapidly.

The quality can sometimes be so changed by treating, mixing, and blending, that the grade of the product will be raised. As an example of how grain grades can be changed, the Federal Trade Commission reports that over a period of years several Chicago elevators received *in* 45.7 per cent of numbers 1 and 2 grades, and shipped *out* 95 per cent of the same grades.

Contract grades.—Contracts for future sale or purchase are made only by grade, the exchange prescribing which are the contract grades. The Chicago Board of Trade prescribes No. 2 red winter, No. 1 northern spring and No. 2 hard winter wheat. When the quantity of any particular grade is limited it is generally permissible to deliver other grades at definite differentials in prices. This is done to make it harder for anyone to "corner" the supply of any given grade. Cotton is divided into many grades, and an elaborate system is provided to show what differentials shall prevail when other grades are delivered. In Duluth, No. 1 northern spring constitutes the contract grade of wheat, but No. 2 northern may be delivered at 5 cents per bushel under the price of the former.[9]

[8]Writing in the *Saturday Evening Post* of April 10, 1920.

[9]Huebner, "Annals of American Academy of Political & Social Science," September, 1911, page 8.

Corners.—There should be a large quantity of an article in existence before it is traded in for future delivery. If there is only a small quantity available, one dealer may contract with other dealers to deliver this article to him and then himself purchase the entire available supply. When the delivery date draws near, the sellers find that this commodity is unobtainable except from the buyer who can name his own price. The buyer in such a case is said to have "cornered" the market. It is extremely difficult, if not impossible, to corner the supply of one of the great staples, such as wheat, for the reason that the supply is too large. As the price rises in the central market, wheat is drawn in from the surrounding country and sellers may also import it from abroad. If, however, the quantity of an article is small it can be cornered. To prevent this, many exchanges have rules against covering. It is just as possible to corner the actual supply of a commodity without exchanges as with exchanges.

Time of delivery.—Future sales are generally made for certain future months. For example, in October future sales may be made for December, May and July. The seller has the option of making delivery upon any day during the month. He naturally chooses the time when he thinks he can buy the goods for delivery at the lowest price. If he waits until the last day of the month, delivery must be made on that day.

Actual delivery.—From what has been said it is apparent that a future sale made upon an exchange contemplates an actual delivery of the goods. The buyer has the right to demand the delivery of the actual goods and the seller has the right to deliver the actual goods. As a matter of fact the actual goods are not delivered on most future contracts, the contracts being settled by the payment of the difference between the prevailing and the contract prices. It is this fact that leads so many people to consider future trading as gambling. The amount of wheat sold for future delivery is many times the actual amount produced. This, however, does not alter the fact that the contracts call for actual delivery of the goods, and that such delivery is made when the buyer so desires. Delivery is made by warehouse receipts. It would, of course, be impossible to bring the actual commodities to the floors of the exchanges for delivery. The rules of the various exchanges specify the areas within which the goods

must be located in order to be offered for delivery, and also the type of receipts which must be accepted by the buyer.

Bucket shops.—Bucket shops, on the other hand, are gambling places pure and simple, where bets are made as to future prices. Actual goods are not handled and no deliveries made. Bucket shops are illegal and are broken up when discovered.

Speculation.—There is undoubtedly a good deal of gambling represented by transactions made upon the exchanges. The future trading in grain has for several years exceeded twenty billion bushels, five-sixths of which is done on the Chicago Board of Trade. The future sales of wheat are some twelve or fourteen times the average total wheat crop of the country.[10] It is said that only a small fraction of one per cent of the sales made on the New York Coffee and Sugar Exchange is consummated by delivery.[11] A distinction should, however, be made between gambling and "legitimate" speculation. This distinction is hard to draw in practice but nevertheless exists. If the buyer expects actually to need and accept delivery of the product contracted for, the purchase does not vary in principle from the purchase made by a wholesaler from a manufacturer for the delivery of dry goods three or six months in the future. If the seller has, or expects to have, the product sold and to make actual delivery, the sale resembles the sale by a manufacturer to a dealer for the future delivery of goods which he expects to manufacture. It is, furthermore, much more certain that the contract executed upon the organized exchange will be scrupulously fulfilled than the contract made privately between manufacturer and dealer.

On the other hand, if a future sale is negotiated on the exchange for the purchase of goods which the buyer does not expect to need and which he merely hopes to resell at a profit, the purchase is gambling or closely akin to it. It is, however, no more of a gamble than the purchase of a piece of land by a hard-headed farmer, which he does not need and merely hopes to resell later at a profit. The outsider who knows nothing of market conditions and decides to take a "flier" on the "strength" of a "tip" is undoubtedly a gambler. One of the

[10]See Federal Trade Commission: "Report on Grain Trade," Vol. V.

[11]U. S. Attorney for Southern District of N. Y. quoted in *Journal of Commerce*, April 20, 1923.

greatest evils of organized speculation is that it is so easy for outsiders to speculate. The outsiders usually know little or nothing of market conditions and the chances are all against them. They come into the market and lose their hard-earned savings. Trying to make easy money by speculation is opposed to industry and thrift. It takes money that should go to pay mortgages or buy better household furnishings. Something should be done to make it more difficult for such people, the so-called lambs, to speculate. Perhaps elimination of dealing on margins would do this.

Advantages of speculation.—If it is admitted that speculation on organized produce exchanges permits certain serious evils, why is it not abolished? The reason is that speculation has certain advantages and so far no plan has gained popular support which would eliminate the evils and retain the advantages. The advantages of speculation are: hedging, the stabilizing of prices, the certainty of prices, and the equalization of prices between different markets.

Hedging.—Hedging is the name applied to transactions made upon the exchanges for the future sale or purchase of commodities, to offset or balance dealings in the actual goods. "The essence of a hedging contract is a coincident purchase and sale in two markets which are expected to behave in such a way that any loss realized in one will be offset by an equivalent gain in the other . . . The commonest type of hedging transaction is the purchase and sale of the same amount of the same commodity in the spot and future markets."[12] For example, a country elevator buys wheat from the farmers which it expects to resell in the large terminal markets. If the price should fall while the wheat is in its possession, the elevator loses, and if the drop is great, the elevator may be ruined. To prevent such a loss, the elevator resells the wheat on the exchange as soon as it is purchased from the farmers. It is then protected from loss and is sure of its legitimate margin for handling the grain.

The miller, by hedging, can protect himself from fluctuations in price and so be free to devote his undivided attention to milling and insure himself of the profit of his milling business regardless of fluctuations in prices. To illustrate, a miller in

[12]Hardy and Lyon: "Theory of Hedging," *Journal of Polit. Econ.*, April, 1923.

January sells flour for delivery in early June at a price based on $1.50 wheat, which is the quotation for May wheat at the time the flour is sold. The miller may then buy the wheat for May delivery at $1.50. When May arrives, he has his wheat at this price and as far as this transaction is concerned it makes little difference to him whether the price goes up or down. If it goes up, he prevents a loss. If it goes down, he loses the opportunity to make a profit. But he has eliminated the risk of fluctuations in price, which is what he desired. In actual practice the miller may not want the grade of wheat that would be delivered on his future contracts. He may desire to select his wheat from samples in order to choose the exact grades which he needs for blending. He can still eliminate most of the risk by hedging. He buys, say, 10,000 bushels of wheat for May delivery at $1.50. When May arrives, let us suppose that wheat has advanced to $1.60. The miller then has made a profit of 10 cents a bushel on 10,000 bushels, or $1,000. As he does not want this particular grade of wheat, he takes his profit and buys the desired grade in the cash market. As the different grades ordinarily advance in about the same ratio, the desired grades have advanced approximately 10 cents, so he has to pay 10 cents more for it, thus using the $1,000 profit to pay the extra 10 cents. His profit offsets his loss on the wheat but he makes his ordinary miller's profit on the flour. On the other hand if the price had dropped, the miller would lose 10 cents a bushel on his hedge, but would save 10 cents on the purchase of cash grain, still having his legitimate miller's profit on the sale of the flour.

Hedging in actual practice is not always as simple as indicated by the foregoing illustration of its use. The hedger ordinarily makes two purchases and two sales on each hedging transaction—a cash purchase and sale, and a future purchase and sale. This is done for the reason that the actual product purchased may not be delivered to fulfill the future sale. To illustrate, a dealer buys actual grain in January at 84 cents, and to protect himself sells grain for May delivery at 88 cents. He actually sells the grain in February for, say, 86 cents. He is then short of May grain and so buys May grain to protect his hedge. If May grain has advanced the same amount as spot grain, which may not always be the case, he would have to pay 90 cents for it. His transactions would then stand:

Purchases			*Sales*		
Cash grain	@	84¢	Future grain	@	88¢
Future grain	@	90	Cash grain	@	86
Total		174¢	Total		174¢

The elimination of risk by hedging is based on the tendency of spot and future prices to fluctuate together To the extent that they do not move together, hedging fails to furnish protection from risk. Since they do not always move absolutely together, hedging fails to allow for a complete shifting of risk.

Mills, instead of hedging, sometimes take these risks of price fluctuations themselves. The buyer may feel that he is a good judge of market conditions and hence can anticipate the trend of prices. When he predicts correctly his mill makes large speculative profits, but when he guesses wrongly his mill loses heavily and may be thrown into bankruptcy by such speculative losses

Advantages of hedging.—Hedging is an advantage because it enables dealers and manufacturers to shift risk to the shoulders of professional speculators or risk takers. The shifting of risk lessens the margins of gross profits which dealers must take. The greater the risk the greater must be the gross profit of the dealer. The dealer's gross profit is higher on millinery than on hardware, and higher on flowers than on groceries. The less the risk the smaller the margin on which a dealer will handle a product. The advantages of hedging are so well recognized that even hostile critics admit its desirability and do not advocate its abolishment. They would abolish purely speculative business but would leave the exchanges open for legitimate hedging transactions.

Risk taking.—Risk is inherent in all business transactions. Many risks can easily be shifted to those whose business it is to bear them, for instance, the insurance companies. The risks from fire, burglary, flood, employers' liability, tornado, lightning, rain, hail, automobile and railroad accidents, and some other contingencies can be covered by insurance. Most business men consider it good policy to cover insurable risks by insurance, and it seems highly desirable that as many risks as possible be made insurable. The produce exchanges provide what might be called insurance against a change in price. When a risk can be insured against, its cost can be measured

and hence no large profit need be figured to cover this risk. Those granting insurance base their charges on an actual knowledge of the risks or on past experience. It appears to be much more economical to have hazards borne by those who can average them up in making their rates, than to have a number of successive manufacturers and middlemen add large sums to their gross profits in order to protect themselves against possible losses. If the men in other trades were able to hedge their purchases and sales, much less money would be lost by the manufacturers and dealers in periods of rapid price declines, fewer contracts would be cancelled and much better feeling would prevail. This suggests that future trading might well be extended to other commodities, although in many cases such trading would be impracticable owing to lack of standard grades or the small quantity of each product on the market.

Stabilization of prices.—It is argued by the advocates of speculation that it serves to stabilize prices. Without future trading, it is argued that prices would go much lower when the market is glutted and much higher when the supply is small. Such stabilization of prices is highly desirable. In the fall when the crops are being marketed it holds prices up and so benefits the growers. In the spring and summer when the supply is getting low it holds prices down and so benefits the consumers. Although prices fluctuate widely upon the exchanges, it is argued that they would fluctuate much more widely without the exchanges and future trading. In Russia where the grain trade was unorganized, the peasant farmers had no way of knowing the value of their grain and had to sell it to the local merchants, for what the latter were willing to pay. The merchants could not hedge their purchases and were uncertain as to what prices they would receive when the grain finally reached the large markets. To protect themselves they paid the growers a very low price for the grain. It is said that the Russian peasant often received only from one-third to one-half of the price of wheat in the large markets compared with 90 per cent received by the American farmer.

To understand how this result is accomplished, it is necessary to understand what is meant by "short" and "long" trading. A short sale is a contract to deliver something not in the possession of the seller in the expectation of being able to buy it for delivery at a lower price than it has been sold for. The

manufacturer who sells 10,000 yards of cloth for delivery six months from date has sold short. He expects to produce the cloth at a cost below the selling price and so make a profit on the sale. The man who contracts to supply an army camp with 1,000 bushels of potatoes in the expectation of going out in the country and buying them at lower price has sold short. Similarly the trader on the exchange who sells 10,000 bushels of wheat for delivery six months in the future does so in the expectation that the price of wheat will drop so that he can buy the wheat for delivery at a lower price than he sold it for. The short seller is commonly referred to as a "bear" and a falling market as a "bear" market.

The "long" trader is one who buys a commodity to hold it for an increase in price. The man who buys real estate, pig iron, coal, flour, canned goods, silk, sugar or any commodity to hold it for an increase in price is dealing on the long side of the market. The public understands little of short sales, and when it speculates nearly always deals on the long side of the market. The "long" trader is commonly referred to as a "bull" and a rising market as a "bull" market.

The professional traders in forming their opinions as to the trend of prices consider all the known factors affecting supply and demand. In the case of wheat they consider the conditions of the crop in all producing countries, the acreage planted, the amount carried over from last year, the visible supply, the probable amount still in the hands of the growers, the export demand from all importing countries, and the rate at which the domestic mills are purchasing. They thus form their opinions as to probable conditions in the future, and buy and sell accordingly. As the crop conditions are affected by the weather the prospects may change materially in a short time. The report of rust in Saskatchewan may cause a violent increase in price, while the news of rains in Argentina may cause a drop in prices. The news of an impending war may send prices up, as the armies will need wheat. Prices are also affected by the general industrial and financial situation. Different traders attach different importance to the same report. One trader considers a certain bit of news important, while another trader overlooks it entirely. One trader considers himself better informed as to actual conditions than others. Thus there is a difference of opinion as to future prices and hence future trading. From

this it is clear that prices reflect not only the actual conditions of supply and demand but also the opinions, beliefs, hopes, and fears of changes in supply and demand entertained by the speculators.

The farmers at times object bitterly to short selling, saying that it is equivalent to creating a large additional supply and hence helps to depress prices. They forget that the long buying similarly creates an additional, if fictitious, demand and hence helps to raise prices. If the price goes below what some traders consider the probable future price they are always ready to buy. This prevents prices going as low as they otherwise would. Such speculative buying at low prices acts as a cushion for falling prices. With commodities not subject to future trading this cushion is absent; hence prices may fall much lower than they would if future trading were possible. In most commodities it is extremely difficult to speculate on the short side of the market. Hence practically all speculators are on the long side of the market, and when prices are rising, speculation tends to force prices up to excessive levels. Then when the break comes, short selling is impossible. No one wants to buy in a falling market. Thus prices drop and drop until they reach extremely low levels with resultant loss to all owners of goods. When the prices of commodities subject to future trading go above what some traders consider warranted by the facts, they begin to sell. This selling checks the rising prices. Such alternate buying and selling by the traders is what is supposed to stabilize prices.

Many studies have been made which indicate that speculation on the organized produce exchanges does actually tend to stabilize prices. The skeptics, on the other hand, contend that these studies are inconclusive, that the exchanges do not prevent manipulation of prices, and that they do not exert any marked tendency toward stabilization of prices. The Federal Trade Commission, which has made a most exhaustive study of the entire grain trade, does not seem to be entirely convinced that speculation does tend to stabilize prices. On this point, it says: "While the Commission believes that speculation in wheat futures is not an indispensable part of the marketing process and may sometimes be highly injurious, the future contracts may have a legitimate use for 'hedging.' In this connection it is claimed that future trading performs an

insurance function where ordinary insurance methods would not be practicable, and that undue restriction of future trading, such as would deprive the grain trade of this service, might result in grain dealers requiring larger margins and consequently result either in lower prices to the farmer or higher prices to the consumer. Without now expressing an opinion on this subject, it appears that there is a large volume of future trading that is mere gambling, and involves a great economic waste."[13]

Certainty of prices.—Whether speculation does stabilize prices or not, it greatly increases the certainty of prices. It enables all interested parties to be much more certain as to what prices will be in the future and as to what changes in prices may be expected. This is a decided advantage.

Equalization of prices between different markets.—Organized exchanges tend to make prices uniform over a wide area. If the price of wheat is higher in Chicago than in New York, traders will buy in New York and sell in Chicago. If the Liverpool price is higher than the Chicago price by more than enough to pay freight, insurance and exchange costs of getting the wheat to Liverpool, traders will buy in Chicago and sell in Liverpool. In this way prices are equalized, except for transportation costs, in all markets having exchanges. This enables the Western farmers to get the full Chicago or Liverpool price for wheat, less the costs and dealers' profits incurred in getting it to Chicago or Liverpool. It also insures the English consumers getting wheat at the Chicago price plus the cost of getting it to England. This is a great advantage as compared with products having local prices. With the latter class of products, prices may be very high in one market, while in another market goods are rotting for lack of buyers.

Benefits of marketing system to farmers.—As a result of standard grades, public prices, efficient elevators and organized exchanges, the American farmers are said to receive a much larger percentage of the price paid by the consumers for their grain than for the products not handled by organized exchanges. The farmers' coöperative grain marketing organizations seem to appreciate the advantages of the exchanges and instead of abolishing them desire membership in them in order to sell their own grain directly on the exchange floors.

[13]Letter of Federal Trade Commission to the President, December 13, 1920.

Proposed remedies.—It is admitted that there are evils connected with the produce exchanges. Some have proposed that all future trading be abolished. Germany at one time (law of 1896) prohibited future trading but failed to realize the expected benefits from the change and so rescinded the prohibition.

The Grain Futures Act declares future sales of grain, in interstate commerce, unlawful, unless the seller is the owner or grower of the grain or the sale is made on an exchange designated as a "contract market." To be designated a contract market, an exchange must be located at a terminal market where grain is sold in large enough quantities to fairly establish prices; provide for keeping records and making reports of the details of transactions as directed by the Secretary of Agriculture; prevent dissemination of false or misleading reports by the exchange or its members; prevent manipulation of prices and the cornering of grain; and admit representatives of growers' coöperative associations to membership. Speculation or "playing the market" by outsiders in the hope of making easy money is an evil that should be stopped. Weld suggests that brokers be prohibited from soliciting speculative orders from outsiders.[14] A more drastic remedy would be to prohibit all marginal dealings. Most speculative transactions are carried on a margin. That is to say, the buyer or seller puts up the required margin, perhaps 10 per cent, with the broker who places the order and provides whatever additional capital is needed to finance the transaction.

Much has been done to improve conditions by the regulations of the exchanges and by State and National laws such as the grain, and cotton futures acts, but many evils still exist. So far no plan seems to have been proposed which would abolish the evils and retain the desirable features of the system. It seems certain that the exchanges themselves are powerless to make adequate reforms, for the reason that their members, the brokers, receive a large part of their commissions for handling purely speculative orders for others.

Conclusions.—It has been impossible in the space available in a book of this nature to cover all the aspects of the produce exchanges and speculation. No attempt has been made, for example, to describe the actual methods by which sales are

[14]Weld, L. H. D.: "Marketing of Farm Products," page 359.

made and financed, or to give any detail as to how the commodities are handled and inspected. This chapter attempts to describe briefly only the more important operations of the exchanges and to outline a few of the problems involved in organized speculation. It is hoped that the reader will continue his study by consulting some of the references listed below for his convenience.

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Questions—Chapter XI

1. Distinguish produce exchanges from auctions, farmers' markets, and bucket shops.

2. An elevator in a Kansas village handles about 100,000 bushels of grain annually—40,000 bushels of wheat and the balance mostly corn and oats. If you were manager of this elevator, would you hedge when you purchased grain from the farmers? Why or why not?

3. Define spot and future sales. Which is the more often used for speculative purposes? Why?

4. Enumerate the advantages and disadvantages of speculation on organized exchanges.

5. Show how hedging enables risks to be shifted. Does this cheapen the cost of marketing? Why or why not?

6. Dr. Williams has a practice in a Middle Western city which nets him about $25,000 a year. He "plays the grain and cotton markets" regularly, buying or selling short, as seems "wise" from time to time. Sometimes he has a profit of $10,000 to $20,000 on his broker's books. At other times his losses are equally large. Over a period of years, he just about "breaks even." The conclusion seems to be that he "plays the market" for diversion rather than in the expectation of profits.

Is Dr. Williams a speculator or a gambler? Are his operations beneficial from an economic viewpoint?

7. Does speculation tend to stabilize prices? If so, how? If not, why?

8. Are the produce exchanges beneficial to the farmers? To the consumers? Why or why not?

Chapter XII

WHOLESALE DEALERS

Definitions.—A wholesaler may be defined as a dealer who buys in large quantities and sells, generally in smaller quantities, to other dealers. There is no universally recognized distinction between the wholesaler and the jobber. Formerly the jobber was an irregular factor in the market who bought "job" or odd lots and sold them to wholesale dealers, or wherever he could sell them advantageously. This distinction is still made in the shoe trade. Perhaps he had no warehouse or regular place of business and acted as a "free lance" in the market. Later, however, he came to have a regular place of business and to do business on very much the same basis as the wholesaler, and in many trades the names came to be used interchangeably. In such standard merchandise lines as groceries, hardware, drugs and dry goods there seems to be no distinction and the terms are now used interchangeably. The term "job lot" is, however, still common in the textile markets.

Grocers.—Thomas' Grocery Register distinguishes between strictly wholesale grocers—those who buy and carry stocks and sell to dealers only, without discounts and rebates of a profit-sharing or coöperative nature and who have no substantial retail interest—and others who are not strictly wholesale grocers. The latter classification includes stores doing both a wholesale and retail business, chain stores, supply houses, dealers in specialties, and coöperative houses which are given the same prices as strictly wholesale dealers by some manufacturers. The distinction between a wholesaler and retailer is clear. A wholesaler is one who sells to other dealers without a profit-sharing discount, while a retailer sells to consumers. The quantity sold has nothing to do with the classification; for the wholesaler may sell in fraction case lots to retail dealers, while the retailer may sell in dozen case lots to a large consumer.[1] Many wholesalers adhere very strictly to

[1]The author has often seen strictly wholesale grocers in the smaller towns

this distinction and sell only to dealers, and some manufacturers refuse to sell to anyone but strictly wholesale dealers. This distinction, however, is not always observed. The chain and department stores, although selling only at retail, often buy on the same or even a better basis than the wholesalers. In the competitive grocery markets a buyer's status seems to be determined solely by his buying ability. A manufacturer may claim to sell only to wholesalers, and yet for the purpose of purchasing he naïvely classifies the large chain and department stores as wholesalers. The large stores perhaps deserve to buy on a wholesale basis, but why claim to sell only to wholesalers and then class all large buyers as "wholesalers?" This suggests that perhaps the definition of the wholesaler should be changed to meet altered conditions.

Wholesaler and jobber.—In some trades there is a distinction between the wholesaler and the jobber. A distinction is generally made, for example, in the produce markets. The carlot receivers of fruits and vegetables are known as wholesalers; while the dealers buying from them and selling in relatively small lots to the retail dealers, hotels, and restaurants are called "jobbers." The distinction seems to be strictly observed in some cities, and if the same firm does both a wholesale and jobbing business it feels entitled to two profits. In other cities, Pittsburgh, for example, no clear distinction is made in the produce market between the wholesaler and the jobber.

In the sale of shoes "the jobber proper usually handles lots of shoes ordered by merchants but not taken from the manufacturers and any over-production that may have resulted from a failure to sell the entire output to wholesalers or retailers."[2]

In this book the terms "wholesaler" and "jobber" will be used interchangeably when referring to the standard merchandise lines—groceries, hardware, dry goods and drugs.

General vs. specialty wholesalers.—Wholesale dealers may be classified as general and specialty dealers. The general wholesaler is one who handles a full or complete line of mer-

open a case of cereal and sell one or two, 10 or 15 cent packages to a retailer. Such grocers often buy in smaller lots than even the smaller city department stores or chain stores. Yet they are strictly wholesale, in that they sell only to other dealers, and are so classed in the directories.

[2]Report of Federal Trade Commission: "Leather and Shoe Industries" page 168.

chandise, such as groceries or hardware. The specialty wholesaler is one who handles only a few articles or a relatively small group of articles, such as flour, hosiery, or knit goods.

The general wholesaler handling groceries or hardware is still common. The hardware jobber frequently handles over 10,000 items, and the larger one handles 40,000 or more items, counting sizes. The wholesale druggist handles as many as 40,000 or more separate items, while the well-stocked electrical jobber carries 30,000 items and needs 6,000 cuts in his catalogue. Half a century ago the general jobber was common in the dry goods trade, but with the rise of the department stores and the rapid increase in the use of ready-to-wear clothing, the general dry goods jobber has been almost entirely replaced by the specialty jobbers in the large Eastern markets —New York, Boston, Philadelphia, Baltimore, and Chicago— but is still common in the smaller cities. A recent survey showed only two general dry goods jobbers in New York, whereas there were 98 specialty dry goods jobbers who handled woolen goods.[3] The handling of such a large number of articles by the general jobbers involves many serious problems in purchasing, stock keeping, and selling, which will be discussed later.

The specialty wholesalers are common in the handling of dry goods, flour, fruits and vegetables, butter, eggs and cheese, grain, hay and tobacco. It is not uncommon for a wholesaler to handle nothing except flour, potatoes, or butter and eggs. The merchandising brokers mentioned in a previous chapter are really specialized wholesalers. Some of the highly specialized wholesalers are known as carlot dealers and handle only one or two commodities in carlots, for example, potatoes or flour.

The problems of the specialty jobbers are different in many ways from the general jobbers. They have simpler buying, warehousing and selling problems. They are specialists in the merchandise handled and can render a higher type of service to both the producers and retailers.

The distinction between the general and specialty jobber is not always clear. The general jobber may cut off certain classes of goods until he resembles a specialty jobber, and a specialty jobber may add additional lines until he resembles a

[3]Cherington, Paul T.: "The Wool Industry," Chapter 9.

general jobber. For example, would a jobber handling different kinds of fruits and vegetables in season, together with butter, eggs, and cheese, be classed as a general or specialty jobber?

National and local wholesalers. —Wholesalers are sometimes classed as national, sectional, or local, according to the territory covered by their salesmen. National jobbers are those who sell goods in nearly all parts of the United States. This may be accomplished from one center with one sales organization when the products handled are of a high value in proportion to weight, as with jewelry or dry goods. National dry goods jobbers are located in Chicago and St. Louis. Many products are too heavy to allow of economical distribution from any one city. The jobber may gain national distribution by establishing a chain of wholesale houses in various distribution centers. Examples of such chains are the Associated Simmons Hardware Companies, Austin Nichols Co., and Butler Bros. National wholesalers often meet the competition of local wholesalers by carrying large and well-assorted stocks; by carrying goods of high quality not obtainable from all wholesalers, such as imported goods; or by carrying goods under their private brands.

There are many wholesalers who do not cover the entire country but who cover such a large section that they may be called sectional wholesalers. There are few wholesale grocers who deserve to be classed as national. There are, however, many who cover a considerable section of the country either by having several houses, by carrying fancy goods, or by advertising goods under their own brands. Sectional dry goods jobbers are located in the cities in the Upper Mississippi Valley, in the South, and on the Pacific Coast. Sectional jobbers resemble national jobbers except that they cover a smaller territory.

There are, in nearly every part of the country, wholesale dealers who cover only a small territory, perhaps only a few counties, and sometimes only a part of a large city. There is hardly a town, excluding of course suburban towns, having more than a thousand or so population that does not have at least one wholesale grocer. There are also many local jobbers of hardware, dry goods, produce, and other lines. Local jobbers secure their trade because of low delivery charges on

the retailers' purchases and because of the promptness with which the retailers can secure goods—oftentimes within 24 or 48 hours after the order is placed. One authority has estimated that 85 per cent of the groceries handled by wholesalers are sold by local or semi-sectional jobbers. They do not generally carry as large a variety of goods as the larger sectional and national concerns. A large part of their business is in staple articles which have a quick turnover and in which there is little style risk. Because of their location and the stocks of quick moving goods carried they often have lower operating expenses than their larger competitors. There is thus a tendency for the retailers to buy their staple products from local jobbers; and their specialties, fancy goods, and style goods from the larger sectional and national jobbers.

Semi-jobbers.—Many dealers do both a wholesale and retail business. Such dealers are often called semi-jobbers. In the sale of hardware such dealers are especially common and are found in large numbers in the agricultural States in the South and West.

Sub-jobbers.—The term "sub-jobber" is used in some trades, notably in the tobacco trade, to denote a dealer who buys from the wholesaler and sells to the retailer. In the sale of cigarettes the sub-jobber often has a light truck which he fills at the wholesale house and with which he calls upon the retailers, delivering as he sells. He often has no place of business outside of his home, any stock on hand being stored in the cellar or in an empty room. His expenses are so low that he can buy from jobber and sell to retailer in competition with jobber.

Mail-order jobbers.—There are a few mail-order wholesale dealers.[4] Such houses are helpful especially to retailers in the rural communities who are in direct competition with the various mail-order houses. One of the arguments used by wholesale mail-order houses is that they eliminate the expense of traveling salesmen, one of the largest expenses of the ordinary jobber, and hence can sell cheaper than other jobbers. Some of these mail-order jobbers do, however, employ some traveling salesmen who call upon the retailers occasionally.

[4]Such for example as Butler Bros. with warehouses in Chicago and five other cities; Eli Walker, of St. Louis; Harvey Blair & Co., wholesale mail-order grocers, Richmond, Va.; the Western Grocers, Ltd., mail-order grocers with 13 branches in western Canada; and the Baltimore Bargain House in Baltimore.

Coöperative buying organization.—In order to meet chain-store competition, retailers have been rapidly establishing coöperative buying organizations, in the hope of obtaining their goods on a basis enabling them to compete with the chain stores. These organizations may simply consolidate orders so as to obtain quantity prices or discounts, or they may obtain warehouses and conduct fully-organized jobbing establishments.

The Girard Grocery Co., of Philadelphia, is one of the older and better known coöperative jobbing concerns. The Creasey corporation reports some 45 coöperative grocery jobbing houses, principally in the Middle West. The Merchants' Grocery Co. reports over 40 stores, mostly in the South. The American Grocers, Inc., of Newark, N. J., reports 12 warehouses in the East and South, and 18,000 retail grocer members. This company reports annual sales of $3,000,000, which, however, is only an average of $166 for each retail member.

If the retail grocers can successfully operate their own wholesale houses, it would seem that other types of retailers could do the same. They have not done so to any large extent, apparently because they have not been forced into it by competition with chain stores. Coöperative wholesale houses have, however, been started in other lines. There are said to be, for example, eight coöperative hardware jobbing houses in the country. The advocates claim many advantages, among others low operating expenses owing to a small sales force and few officers; absolute fair dealing with its members; close adherence to price lists so that the retailer can quote prices on goods which he does not have in stock; and the fact that the retailers receive the profits on their purchases as dividends.

More will be said about coöperative buying organizations in a later chapter.

Commission merchants.—The commission merchant was defined in the chapter on Brokers and Sales Agents (ch. IX) as one who receives goods from others for sale, who has control of the goods, and who accounts to the owners for the proceeds of the sales. Commission merchants are those who receive goods on consignment for sale. It has been pointed out that the work of the brokers often resembles closely that of the commission merchants, but as the commission merchants handling farm products generally have warehouses and

actually handle the goods as their judgments dictate, they will be discussed in this chapter. In actual practice the same dealer may do a commission business, a brokerage business, and a merchandising business.

Commission men may handle any kind of goods. Textiles, vegetables, fruits, grain, live stock, poultry, butter, eggs, chemicals, and cotton are some of the articles that have very commonly been sold on a commission basis. Farm products have, however, been sold in this way more generally than any other class of goods. This was formerly such a common practice that all produce dealers came to be known as commission merchants. The name still sticks to the produce dealers although many of them now do little or no commission business.

Decline in commission business.—Not nearly as many goods are sold on a commission basis as formerly.[5] There have been many reasons for the decline in the commission business. Perhaps the most important has been the shipping of surplus stocks, or goods which couldn't be disposed of in any other way, to commission men for sale. Thus the largest quantities of goods have been consigned when there was a glut in the market. This has meant that the prices received were low and the shippers dissatisfied. Hence the saying that "it's a poor market when you have to consign." Also, as marketing methods became better developed and better understood it was easier for the producer to get in direct touch with the wholesalers, jobbers or retailers. On their part the wholesalers have often gone direct to the producers and bought outright. There have been many charges of unfair dealings on the part of commission men, such as fraudulent returns to shippers and sale of the goods to themselves at unreasonably low prices.[6] The commission men do not claim that there have not been dishonest men in the commission business, just as in any other business, but they do claim that a large part of the trouble has lain with the shippers, or with market conditions which the latter do not understand. For example, the goods may arrive in such poor condition that they must be

[5]According to a statement made some years ago by John Wanamaker, until 1875 trade rules limited the sales of manufacturers to commission men, and of commission men to jobbers. "Annals of the American Academy of Political and Social Science," April, 1900, sup. pages 121-135.

[6]On this point read Federal Trade Commission Report on "Wholesale Marketing of Food," pages 165-172.

sold at a low price. The shipper is loath to believe that his product was not of good quality. It is also pointed out that many shippers consign their goods only when it is impossible for them to dispose of them in the regular way, which generally means that the market is glutted so that goods can only be sold at exceptionally low prices. Again, the market price may fall while the goods are in transit. Small shippers often grade their goods very carelessly and pack them in whatever containers are at hand. Buyers do not like to buy by guess and therefore pay more for a standard product.[7] Dealers at times refuse to buy outright from any shippers except those known to ship good packs. This often means that poor packers must consign their goods.

Persistence of commission business.—In spite of all the complaints about the prices received for goods sold on commission, considerable amounts of certain products are still sold in this way. Small country buyers may ship such goods as eggs to a "concentrator," who makes up carlots, on a commission basis. Live stock is still very largely consigned to commission men. About 71 per cent of the grain shipped to terminal and smaller markets by grain elevators and warehouses is sold by commission men. From 80 to 90 per cent of the grain shipped from the northwest is shipped on a consignment basis.[8] As there is a continuous market for these products, sales can always be made. The prices are published and widely distributed so that the buyers can know whether they receive a fair price for the grade of goods sold. A considerable quantity of butter is still sold in New York on a commission basis.[9] The sale of fruits and vegetables on a commission

[7]An actual incident will help to make this clear. A farmer near an eastern city shipped his cantaloupes to a dealer to be sold on a commission basis, telling the dealer that they were the finest he had ever grown. When the cantaloupes arrived they were packed in barrels and boxes of various sizes. When they were opened it was found that the cantaloupes were dirty, many of them were sun-burned, and all sizes were mixed together. It was very difficult to sell them in competition with the western product, which came uniformly graded, of neat appearance, and packed in crates of uniform size. The flavor may have been much better than the western cantaloupes which are picked green, but the public buys largely on looks. The commission man found it very hard to get any retailers interested in the local product, and was unable to get a price which was satisfactory to the farmer.

[8]Report of Federal Trade Commission: "Country Grain Marketing," pages 144-145.

[9]Weld, L. H. D.: "Marketing of Farm Products," page 89.

basis in Cleveland and Philadelphia furnishes another example of the continuance of the consignment business. Very little southern produce is received in Philadelphia on a consignment basis, whereas a large part of the nearby New Jersey produce is marketed in this way. The reason given for the continued consignment of the Jersey product is that the growers come into personal touch with the commission men and gain confidence in their honesty. They are near enough to visit the market frequently and see the conditions in which their goods arrive and ascertain the actual prevailing prices. It seems from these examples that goods can be satisfactorily marketed on a commission basis if the shippers can feel satisfied that they are being given a square deal.

Assumption of risk.—The difference between outright sale and consignment is in the assumption of risk. When the producer sells f.o.b. shipping point he frees himself of any further risk and also gives up any chance of any further profit. If he ships on consignment he takes the risk of losses and also has the chance of profiting by an increase in prices or by fortunate sales. This is probably the reason why more goods are shipped on consignment when the quality is poor or the market glutted, as the shippers are then unwilling to accept the low price offered and will take the risk of a loss in the hope of getting a better price in one of the central markets.

Many States have passed laws regulating commission men but they seem to have been of little use in reviving the commission business.[10] The practice of some commission men of selling the shippers' goods to themselves has been especially criticised. The suggestion that there should be some public marketing organization in the large cities to which growers could consign their goods with the assurance of getting honest treatment is not without merit.

Rate of commission.—The rate of commission received by commission men may vary all the way from 1 to 15 per cent, but in the sale of farm products, 5, 7, and 10, are the most common percentages, except on the sale of large lots, carloads, for example, where the rate is generally much lower.

[10]New York, for example, requires all commission dealers in farm products to secure a license and file a bond for $3,000. The State Department of Farms and Markets investigates all complaints made by shippers and sees that any money due to the shipper by a commission man is paid. In 1921, 667 dealers took out licenses. *New York Times,* April 2, 1922.

Number of wholesalers.—The number of wholesale dealers handling typical kinds of merchandise, as compiled by the Rapid Addressing Machine Co., is as follows:

Class	*No. of Dealers*	*Class*	*No. of Dealers*
Groceries	3,700	Hardware	1,030
Produce	7,885	Dry goods	760
Provisions	1,221	Hats	200
Fruit	1,830	Clothing	230
Butter and eggs	1,200	Shoes	800
Meats	781	Jewelry	800
Furniture	250	Sporting goods	412
Wall paper	120	Cigars and tobacco	1,120
Electrical supplies	300	Flowers	1,766
Glass, oil, paint	600	Seeds	630
Leather	630	Paper	1,500
Drugs	785		

In addition to the wholesale grocers listed above, there are some 2,000 dealers, such as, semi-jobbers and chain stores, who claim to be wholesalers and who are given wholesale prices by some sellers. A total of 5,600 wholesale grocers are listed in R. G. Dun & Co.'s General Reference Book, nearly 3,000 of whom are rated at over $100,000. The total number of wholesale dealers in the United States is about 45,000. This is approximately one wholesaler for every 25 retailers and 2,400 people.

Services Performed by the Wholesaler

Much criticized.—In recent years the middlemen have been much criticised by the public. The public to a large extent has in mind the wholesalers, although it has no very clear idea of who the wholesalers are or what they do. To many people the wholesalers appear as vague, rather intangible persons, who stand betwen the producers and retailers and collect toll on all goods passing through their hands. They do not know whether there is one or half a dozen wholesalers back of the retailer, but they are very strongly of the opinion that there are too many wholesalers, and that the profits taken by them are unnecessary, or at least unreasonably high. The public comes into direct contact with the retailers and sees that they perform a necessary function. The retailers also have a chance to defend themselves and to show what useful functions and services they perform.

Details of services performed.—The wholesalers perform

many services that are useful, if not absolutely necessary in the present process of market distribution. The principal services performed by the wholesalers are: assembling; warehousing; distribution of goods to the retailers in small lots; delivery; supplying the producers with ready made sales organizations; and financing by extending credit to the retailers. Other functions are, the educating of the retailers and risk-taking. Distributing goods to the retailers in small lots involves dividing, and often packing. From this enumeration it is seen that the wholesalers perform all of the marketing functions listed in Chapter II, except standardizing and grading. Some of the large wholesalers who sell goods under their own brands perform this function.

Assembling.—One of the chief functions performed by the general wholesalers is assembling. They bring together goods produced in various parts of the world by hundreds or thousands of separate producers and hold them to meet the retailers' demands. The hardware jobber is said to handle goods produced by from 1,000 to 2,500 manufacturers;[11] while the drug wholesaler probably handles articles made by as many or more producers. It would be difficult and expensive for the small retailer to buy from such a large number of producers. The wholesalers' service in assembling this great variety of articles from manufacturers, importers, and country shippers scattered over such a wide area is of great value to the retailers.

The retailer who handles only a few items, or who handles goods such as shoes turned out by a full line manufacturer, does not depend upon the goods being assembled by a wholesaler. Large retail organizations such as department stores, mail-order houses, and chain stores are able to assemble their own goods and save the wholesaler's profit. Other classes of retailers, however, depend upon someone else assembling goods for them.

Warehousing.—The wholesalers perform a useful function in carrying goods in stock close to the retailers' stores. There are two advantages in the storing of goods in convenient distributing centers throughout the country. The first is the

[11] Hegner, Frank A.: "Development of the American Hardware Industry," an unpublished thesis for the Bachelor of Science in Economics degree at the University of Pittsburgh.

quickness with which retailers can obtain goods; and the second is the saving in freight rates. Most types of wholesalers, except carlot dealers and drop shippers, have warehouses where goods are stored. The necessary facilities vary with the nature of the goods. With bulky goods, such as hardware or groceries, the jobber's warehouse is often on a railroad siding or water front to save trucking expenses on goods from freight car to store door. A wholesale jeweler needs little space, but requires large safes in which to store valuables. The butter and egg jobbers need coolers in which to keep their goods.

If the retailer had to order goods from the factory or from the country shipper every time he needed goods, he would have to carry much larger stocks of goods. This would require a large amount of capital; a larger space for the storage of goods would mean an increased risk of style change and price decline, and would mean a slower rate of stock turnover. The distributing warehouse acts as a pool from which the individual retailers can draw goods as needed. It can be dispensed with by retailers located close to the source of supply, but is important for those at a distance. Without it they would have to purchase more goods than they are likely to sell in a season, or run the risk of being out of stock and losing business. The warehouse may be owned by a wholesaler, by a manufacturer, or coöperatively by the retailers.

The retailer can be supplied from warehouses located close to his store cheaper than from distant factories because of the saving in carload freight rates, as compared with less-than-carload freight rates. The carload freight rate from the factory to the jobbing center plus the less-than-carload freight rate from the jobbing center to the town where the retailer is located, is ordinarily lower than the less-than-carload rate from the factory to the retailer's town. There are, of course, certain expenses involved in unloading the goods, in storing them, and in shipping them out that are not involved in a direct less-than-carload shipment from the factory to the retailer. But, the difference between the direct less-than-carload rate, on the one hand, and the combined carload and less-than-carload rate, on the other hand, gives the wholesaler the margin upon which he works, so far as freight rates are concerned. The relation of carload to less-than-carload rates is

an important thing to the wholesalers. Such jobbing centers as Atlanta, Kansas City, and Minneapolis are interested in keeping the differential as high as possible to give the wholesalers a large margin upon which to work.

The saving in freight rates by shipping in carlots to distributing points, and in less than carlots from these points to surrounding consuming districts, is illustrated by the figures presented on page 226. The first item shown is (iron and steel) hardware made in New York and purchased by a retailer in Illmo, Mo. The retailer is unable to buy a carload at one time. If he has the goods shipped from New York, the less-than-carload freight rate is $2.015 per 100 pounds. If this hardware is purchased in carloads by a St. Louis jobber, he pays 77 cents freight per 100 pounds from New York. The less-than-carload rate from St. Louis to Illmo is 91 cents, making a total freight rate of $1.68 when the hardware is distributed from St. Louis, as compared with $2.015 when shipped direct from New York to the retailer.

Advantage of jobbing centers in freight rates.—Typical savings by distributing from jobbing centers as compared with direct shipment from manufacturer to retailer in less than carlots, are shown on following page.

Who operate warehouses.—It is not necessary that the distributing warehouses be operated by wholesale dealers. They may be operated by wholesalers, manufacturers, retailers, or by public or private warehouse companies who act as transfer agents. Large or full-line manufacturers can and often do provide their own warehouses at distributing points convenient to the retailers. Small or short-line manufacturers can hardly operate such warehouses economically because of the small volume of business done in any one center. The lack of capital is also a limiting factor. Proposals that manufacturers of supplementary, but non-competing goods operate distributing houses coöperatively, are often heard, but such establishments are infrequent. The chain grocery stores generally operate their own warehouses. Other warehouses are operated coöperatively by a number of independent retailers. Some manufacturers make arrangements with warehousemen to receive and store goods and to ship them out upon orders. The pooled car is a method of securing carload rates on less-than-carload purchases and of avoiding the necessity of warehousing. A

			Rates in Cents per 100 pounds			
Article	*From*	*To*	*Carload*	*Less than carload*	*Total*	*Saving*
Hardware	New York	Illmo, Mo.	.....	201½	201½	.....
Hardware	New York	St. Louis	77	.....	.....	.....
Hardware	St. Louis	Illmo, Mo.	.....	91	168	33½
Auto Tire Chains	Pittsburgh	Jellico, Tenn.	.....	135	135	.....
Auto Tire Chains	Pittsburgh	Cincinnati	42	.....	.....	.....
Auto Tire Chains	Cincinnati	Jellico, Tenn.	.....	74½	116½	18½
Linoleum Rugs	Boston	Des Moines, Ia.	.....	182	182	.....
Linoleum Rugs	Boston	Chicago	66	.....	.....	.....
Linoleum Rugs	Chicago	Des Moines, Ia.	.....	73	149	33
Earthenware[1]	East Liverpool	Parsons, Kans.	.....	184	184	.....
Earthenware	East Liverpool	St. Louis	47½	.....	.....	.....
Earthenware	St. Louis	Parsons, Kans.	.....	93	130½	54½

manufacturer may sell small lots of goods to dealers in the same town and ship in carlots, arranging with a broker, a transfer company, or one of the dealers to act as consignee. The buyer on his part may buy goods from many manufacturers and arrange for them to load the goods in one car. Pooled cars, however, can be used only to a limited extent, and do not obviate the necessity of warehouses. Regardless of who performs it, warehousing is a real and necessary service. It may be debatable whether it can be performed most efficiently by the wholesalers, the manufacturers, the farmers' coöperative associations, or coöperatively by the retailers; but it cannot be denied that those who perform it render a necessary and valuable service.

Distribution of goods in small lots.—Most retailers buy goods in small quantities. This is because of their small

[1]Rates have been reduced somewhat since these figures were compiled. Any of these rates may, of course, be changed at any time.

volume of business, their desire to lessen the amount of capital and space used, and their wish to minimize the price and style risks involved in carrying goods in stock. The wholesaler in taking goods from the factories in fairly large quantities, in dividing these goods and selling to the retailers in small quantities is performing a service.[12] The manufacturer selling to the retailer direct has thousands of small shipments in place of a few large ones. The labor involved in packing and accounting for such shipment is quite an item, not to mention the higher freight rates discussed above. In addition, the dividing of goods often involves a repacking of them.

The broken-package room.—The number of orders for small quantities of goods received by the wholesalers is shown by their broken-package rooms. The broken-package room is the place where boxes are broken open and orders from the retailers for less than case lots filled. This is done by most wholesale establishments handling the standard lines of merchandise. They are the bane of many wholesalers' lives. One study by a wholesale grocer showed that it cost more than twice as much to handle, that is, to pack and ship, orders for less than case lots than for case lots; and that from ½ to 1¼ per cent of the average grocery jobber's total cost of doing business now is due to the broken package business. If all business were in fraction case lots, the wholesaler's cost of doing business would be much higher than at present. The amount of broken-package business done by the wholesale druggists is probably larger than that done by any other class of wholesalers. It is said that 75 per cent of the orders received by the wholesalers for patent medicines are for lots of one-quarter dozen or less. Many orders are received for a twelfth-dozen, or for but one bottle. Even items retailing for 10 cents are frequently ordered in lots of one-third dozen and less. In spite of this, the retail druggist generally orders a fairly large number of items, so that his average order totals up to several dollars and allows the wholesaler to make a living profit. The typical retail druggist's order is said to consist of from 20 to 30 items with a wholesale value of about $20. The

[12]This is, of course, only a general statement. Many small wholesalers buy in smaller quantities than many large retailers. The wholesaler wants to secure a rapid stock turnover and so is inclined to buy in as small quantities as possible.

modern retail drug store handles such a large number of items, 6,000 to 7,000, that it must order each item in small lots in order to keep up its rate of stock turnover and spread its capital over all lines. Another reason is that the wholesalers' salesmen call on the retailers so often that the latter need only buy a few days' supply at a time. The retailers also often divide their business among several jobbers.[13]

Delivery. —Many wholesalers deliver goods to the retailers located in the same town. In recent years the motor truck has enabled many wholesalers to extend this service to retailers within a radius of 50 miles. There is often an extra charge for this service, for if not delivered in this way, a railroad freight charge would have to be paid.

Furnishes manufacturers with a sales force.—The wholesaler has a ready-made sales organization to offer to the producer. When a new factory is organized, it has the option of sending its own salesmen to the retailers, or of using the jobbers' ready made sales organizations. It is much cheaper for the small manufacturers to utilize the services of the jobbers' selling organizations than to maintain their own. The manufacturer is a specialist in production while the jobber is a specialist in marketing. It is often necessary for the small manufacturers to devote practically their entire time and energy to the problems of production and leave the marketing of their products to others. The simplest method is to appoint sales agents or brokers to place their goods in the hands of the wholesalers. The next step is to build up a sales organization large enough to sell to the wholesalers direct. It is, however, a much more serious matter to dispense with the wholesalers and sell to the retail trade direct. There are approximately 60 retail grocers to one wholesale grocer, and 20 retail hardware stores to each hardware jobber. (Many of the latter are semi-jobbers who do a small wholesale business.) From this it can be seen that a much larger sales force would be needed to sell to the retailers direct. The employment, training, and supervision of this force is a much

[13]Rebecca Goldfarb, "Marketing of Drugs," student paper, University of Pittsburgh; L. H. D. Weld quoting an unnamed wholesale druggist in the *Nation's Business* of February, 1923; and Shipley Massingham Co., wholesale druggists, Pittsburgh. The President of Louis K. Liggett Co. says that a large drug store not infrequently handles 60,000 items. *System,* May, 1923.

larger matter than managing the small force necessary to work the jobbing trade.

Manufacturers of large lines of goods (for example, Heinz's 57 varieties, or a complete assortment of shoes or suits) or whose product consists of large articles, such as automobiles, can afford to sell direct to the retailers. Manufacturers of short lines or specialties, on the other hand, often find the expense prohibitive. This is especially true outside of the large cities, where a salesman can call on only a few dealers in a day. If his sales to each dealer are small his percentage of expense will be high, while if he were selling a full line or expensive articles, his total percentage of expense might be within a reasonable limit. This explains why some manufacturers sell to the retailers direct, while others sell through jobbers.

If each manufacturer sent his salesmen to the retailers, the latter's time would be so occupied with interviewing the salesmen that they would have little time for other business. The ordinary retailer is not in a position to keep in touch with all the manufacturers whose goods he handles. To do so properly would involve the maintenance of a fair-sized purchasing department. The amount of bookkeeping also would be greatly increased.

From a social point of view it is more economical to have one jobber's salesman represent hundreds of manufacturers, than for each manufacturer to have his own salesmen working the retail trade.

Extension of credit to retailers.—A great many retail dealers operate very largely upon borrowed capital. Many of them do not have sufficient financial standing to enable them to get the necessary funds from the local banks. The wholesalers by selling to them on credit enable them to stay in business. The retailers have had to buy on credit because they have had to sell on credit. If they could sell for cash most of them could pay their bills promptly, but as long as they must sell on credit many of them must buy on credit. A substantial part of the retailers will have to buy their goods on credit, in all probability, for many years to come. The wholesaler, in selling to them on credit, performs a service which in many cases is necessary to their existence. The manufacturer selling to the retailers direct, has the problem of extending them

credit. This involves not only capital, but the necessity of passing on the credit of individual dealers and of collecting many small accounts.

Education of the retailers.—The wholesalers have come to realize that their interests are bound up with the interests of the retailers; for if the independent retailers are forced out of business they themselves will be forced out of existence also. It therefore behooves the wholesalers to do all they can to help increase the efficiency of the individual retailer so that they can meet the competition of the chain and department stores. Many retailers have entered the merchandising field with no particular training or education to fit them for such work, and many of them have been very inefficient. The Federal Trade Commission reported that only one out of every 25 rural implement and hardware merchants had an adequate accounting system, prior to the time when they had to file income-tax statements.[14] Many jobbers are trying to educate the retailers in methods of stockkeeping, window display, bookkeeping, selection of goods, educating salesmen, advertising and so forth. Most jobbers have come to realize that it is not good business to oversell the retailer on any particular article, or class of articles; that the better policy is to help the retailer make a proper selection of goods so that he can carry a well assorted stock and thus use his capital to the maximum advantage.

Some jobbers have reported that the retailers are unappreciative, if not hostile, to their efforts to help them; that the retailers feel the wholesalers are attempting to dictate to them how they should run their businesses. If such reports are true they show that the retailers and the wholesalers are not properly coöperating. The retailers should be glad of any help that will increase their efficiency as merchants. The wholesalers should render services and give advice tending to do this in a spirit of helpfulness and in such a way as to avoid the impression that they are attempting to dictate to the retailers.

Services performed by manufacturers' branch houses.—The branch houses of the manufacturers are in reality specialized jobbing establishments pushing the sale of one brand of goods. These branches may be owned directly by the parent company, may be separately incorporated but operated under the com-

[14] "Annual Report for 1919," page 37.

pany's name, or may be conducted under a different name and controlled by stock ownership.

The problems of these branch houses are similar to the problems of the jobbers, except for the fact that their policies may be worked out for them at the main office. They must receive and store goods, solicit business, make shipments, extend credit to the retailers, make collections, and give advice. Unless the manufacturer produces an extensive line of goods he may find that the expenses of his branch houses are very high in relation to the value of the goods sold. For this reason the branch house may take the "agency" for supplementary lines to be handled on a jobbing basis. In the farm implement business, for example, the branch houses of a manufacturer of tillage implements may handle a grain drill made by a second company, a line of haying tools made by a third company, and so on. Thus the salesmen while selling tillage implements, also sell grain drills and haying tools. This reduces the selling expense for each line sold and also increases the sales of tillage implements, for the reason that the retailers prefer to buy from concerns that can supply them with a full line of implements. The principal jobbers of farm implements are the manufacturers' branch houses. Some of the smaller manufacturers maintain their own branch houses in the Middle Western agricultural States, while in other sections of the country their goods are handled by the branch houses of other farm implement manufacturers or by independent jobbers.[15] Since farm implements are bulky and the freight rates relatively high west of the Mississippi River, some manufacturers maintain branches only east of this river and depend entirely upon branch houses of other manufacturers, or independent jobbers, to market their implements in the Western territory. Somewhat similar conditions prevail in the meat-packing industry where the branch houses of the meat packers handle many articles not produced by slaughtering houses; for example, butter, eggs, cheese, and so forth.

Questions—Chapter XII

1. What distinction was formerly made between the wholesaler and the jobber? In what trade or trades is this distinction still made? What distinction is sometimes made in the produce markets?

[15]There is in reality one only implement manufacturer who maintains branches in all sections of the United States.

2. Why has the commission business declined? What lines of goods are still sold on a commission basis?

3. (a) Enumerate services performed by the general wholesaler; and by the manufacturer's branch house; (b) Contrast services performed by national and local wholesalers.

4. If the wholesalers were abolished what would be the effect on the large retailers? On the small retailers? On the large full line manufacturers? On the small specialty manufacturers? Would the consumer be benefited? Why or why not?

5. A manufacturer of a limited number of small articles sold by retail hardware stores has his product carried by the hardware jobbers east of St. Louis and north of Atlanta. His sales are far below the capacity of his plant. To operate at a profit he must either increase his sales or produce additional articles. The latter policy will tend to high production costs. In order to stimulate sales he considers advertising extensively to create a consumer demand, or of selling to the retailers direct. Which policy would you recommend? Why? What would selling to the retailers direct involve on the part of the manufacturer? Would it be advisable to advertise extensively and also sell to the retailers direct?

6. Suppose this manufacturer writes the jobbers a courteous letter, explaining the situation and telling them that unless they increase their sales of his product it will be necessary for him to sell to the retailer direct. Would it be possible for the jobbers to increase the sale of his products? If so, how? Would it be worth their while to attempt to do so in this case?

7. How could the retailers perform the assembling and warehousing services if there were no wholesalers? What different problems would be faced by the grocer with less than 1,000 items in stock, and the druggist with 5,000 items in stock?

Chapter XIII

WHOLESALE DEALERS (*Continued*)

Problems of the Wholesalers

The large number of articles which the general jobber must carry in stock involves many difficult problems in purchasing, stockkeeping, and stock turnover. These will be discussed in a later chapter. It is, however, appropriate at this point to say something of the problems of keeping up the sale of all articles and all brands of goods.

Impossible to push all lines.—The general jobbers carry thousands of different articles in stock. It is a physical impossibility for their salesmen actively to push the sale of each and every article at all times. A jobber often carries similar goods for competing manufacturers. If he pushes the sale of one manufacturer's goods more actively than those of another, the one whose goods are not pushed may claim unfair treatment, and if the jobbers do not turn in a fair amount of business, the manufacturer may be forced to sell the retail trade direct. This is especially true when the manufacturer is expending large sums in advertising. The failure of the jobbers to turn in what the manufacturers consider a satisfactory volume of business, often forces the manufacturers to employ specialty salesmen who go to the retailers from time to time to solicit orders which are filled through the wholesalers, or upon which the wholesalers are allowed a profit. The use of specialty salesmen adds to the cost of distribution and brings the manufacturers in direct contact with the retailers. This gives the manufacturers the information needed in case they decide to sell to the retail trade direct, and furnishes them with the nuclei of the necessary selling organizations.

Leaders.—Most jobbers from time to time select articles as leaders and instruct their salesmen to push the sale of these articles. Thus the salesmen may carry samples of the selected leaders which may be changed each month or for each trip. These leaders may be articles of exceptional value to the

retailer, articles that carry a large profit to the jobber, articles which have been moving slowly, or articles on which the jobber is overstocked. If the sale of any particular leader is to be successful, whether samples are carried by salesmen or not, it is first necessary to "sell" the salesmen. It is a well-known fact that salesmen are most successful in selling those articles in which they are interested and in which they see usefulness or value. Therefore, if the sale of leaders is to be a success, it is first necessary to call them forcibly to the attention of the salesmen and to convince them that they are of good quality or offer special values. Although relatively few articles can be selected as leaders the jobbers can in this way promote the sale of new articles that are being introduced on the market, or of the goods of manufacturers whose lines are selling slowly. There are, of course, many standard articles for which the demand is established, and which sell regularly without being used as leaders.

Modification of the Wholesaler's Service

Specialty salesmen.—The service performed by the jobbers within recent years, has been modified in several respects. The employment of "specialty" salesmen by the manufacturers is in reality a modification of the jobber's service, although in the grocery trade such salesmen are no longer a novelty. The orders obtained by the specialty salesmen are sometimes shipped in bulk to the jobber and distributed by him to the retailers. In other instances the goods are shipped direct to the retailers by the manufacturers and are known as "drop shipments." The manufacturer also makes "drop shipments" to the retailers upon request of the jobbers when the latter find their stocks low.

From the latter practice there has grown up in recent years in the Middle West a type of wholesaler known as the "drop shipper," who solicits orders from the retail dealers, especially from the medium sized department stores. The goods are shipped direct from the factory to the retailers, or are shipped in carlots to a central point where the car is opened and the goods forwarded to the buyer in less than carlots.[1]

The wholesalers and the manufacturers have not always agreed concerning the use of specialty salesmen. The manu-

[1]Cherington, Paul T.: "The Wool Industry," page 146.

facturers have often felt that the business obtained by their salesmen was just so much "velvet" for the wholesalers and that the latter should appreciate this help and push the sale of their goods with increased vigor. They have often felt, however, that the jobbers did not push the sale of their goods and only sent in what orders the retailers voluntarily gave them. In some instances the manufacturers have even claimed that the jobbers not only did not push the sale of their goods, but actually induced the retailers to cancel orders obtained by the manufacturers' salesmen in order to substitute other goods carrying a larger percentage of profit to the jobbers.

Some of the specialty manufacturers have threatened to establish their own warehouses and sell to the retailers direct if the wholesalers did not coöperate with them better.

On their side the jobbers have claimed that many of the goods sold by the manufacturers' salesmen were refused by the retailers when delivery was tendered. Mr. H. F. Thunhorst, general secretary of the American Specialty Manufacturers' Association, has stated that when this association was organized in 1908, 55 per cent of the orders could not be delivered, largely because the salesmen did not require the retailers to sign the orders, but owing to the work of this association the percentage of undelivered orders has dropped to 20 per cent.[2] The jobbers have also claimed that the gross profit allowed by the manufacturers was too small to cover expenses and that it was necessary for them to push higher profit lines of goods.

At the recent jobbers' convention the opinion was expressed that the wholesalers would be better off if the specialty manufacturers would sell to the retailers direct, as the wholesalers made no money on their goods.[3] Many of these matters have been adjusted and the relations between the manufacturers and jobbers are better than formerly, but considerable friction still exists.

The Philadelphia plan.—In Philadelphia the wholesale grocers were on the verge of elimination, owing to the growth of the chain stores and of coöperative jobbing organizations which supplied many of the remaining independent retailers. To help meet the situation the wholesalers established a

[2]Quoted in the *Journal of Commerce* of May 22, 1920.

[3]*Journal of Commerce* of March 10, 1923.

coöperative selling company which offered to do the specialty selling for the manufacturers. The idea was that by using coöperative specialty salesmen and dealing with the manufacturers through this company the wholesalers could profitably sell the retailers on a basis enabling them to meet chain store competition. The plan was soon copied in Buffalo, Boston, St. Louis, Portland, Maine, and other cities. It is reported to have been especially successful in Buffalo and Boston. Some of the objects of the Boston selling company are: to furnish the manufacturers with a large and closely controlled selling force calling on the retail trade frequently; to discourage "missionary" work on goods for which the demand is well developed and which the retailers will order without solicitation; to discourage jobbing brokers; and to secure the coöperation of the wholesale grocery salesmen and the retailer in selling sales company products.[4]

Manufacturing jobbers.—Many wholesalers have entered the manufacturing field and manufacture, or have manufactured for them, a part of the goods sold. Such dealers are called manufacturing jobbers. They may manufacture the goods in connection with their jobbing business, may have separately organized factories, or may have the goods manufactured for them by independent manufacturers. Some jobbers buy unlabeled goods and have their own labels put on the packages. In the purchase of canned goods the jobber often reserves the right to have the goods delivered under his own or under the canner's label. It does not seem that jobbers who attach their own labels to goods which they buy from various producers or in the open market, should be classed as manufacturing jobbers, although this is sometimes done. To be so classed the jobber should manufacture the goods in his own plants, or should have them manufactured for him under a definite contract and strictly in accordance with his specifications. If a manufacturing jobber can produce the goods as cheaply as other manufacturers he can undersell the non-manufacturing jobbers or he can realize larger profits on the manufactured goods. Also the demand for the manufactured or private-brand goods may be much larger and more widely distributed than the demands for the goods handled on a jobbing

[4]Winthrop E. Adams, President of Boston Wholesale Grocers Association, quoted in the *Journal of Commerce*, April 1, 1920.

basis. For example, F. H. Leggett & Co. may be able to sell their general line of groceries only in the territory tributary to New York City, but their "Premier" salad dressing is sold over a large part of the country, and it is handled by other jobbers and by chain stores which would not ordinarily buy from this company. In the sale of this salad dressing the company is a manufacturer rather than a jobber.

Wholesalers' brands.—A very large number of wholesalers have come to have their own brands. When a jobber establishes his own brand he enters into direct competition with the manufacturers. There have been two principal reasons for this step. First, the margin of profit obtainable on the manufacturers' branded goods, the prices of which are often fixed to the consumers, was too small. Second, there has been a marked tendency for the manufacturers with well-advertised brands to sell direct to the retail trade. The jobber with his own brand is in a better position to compete with them on an equal basis than is the jobber without brands of his own. These conditions have practically forced the jobbers to establish their own brands.

There is quite a difference of opinion as to the desirability of the jobbers' brands. No one can object to the jobber putting the label on goods which he himself manufactures although the manufacturer may claim that he should not enter the manufacturing field. Perhaps little objection should be made to the jobber using his own label on goods manufactured for him in strict accordance with his specifications and under his direct supervision. The placing of the jobber's label on goods purchased in the open market or on goods not produced under his direct supervision is, however, a different matter.

Desirability of jobber's label.—The jobber claims that his label is a benefit to the consumer, as he is in a position to keep the quality of the product more uniform than an individual producer. He can do this, he says, because he can purchase goods at any place and from any producer, and can thus avoid the poor product which an individual producer may be forced at times to turn out owing to defective raw materials, labor troubles and the like. This applies with especial force to canned goods which vary in quality from year to year because of climatic changes in the various canning districts. He may further claim that goods under his brand reach the consumer cheaper

than goods of the same quality sold under a manufacturer's nationally advertised brand, for the reason that the latter goods bear a heavy charge for advertising. Some manufacturers ordinarily market their product under their own brands, but are willing to sell any surplus product to the jobbers for sale under the latter's brands. In such cases the manufacturers are said to market the best goods under their own labels. Other manufacturers regularly brand only a part of their output and sell the rest to the jobber for sale under the latter's private brands. In case the manufacturer sells his entire output to a jobber the latter may take an unfair advantage of him and upon renewing the contract may ask for price concessions. If the manufacturer loses the contract by refusing to grant the concessions asked by the jobber he is without an established outlet for his goods and must start at the beginning and build up a market for his product. It is also claimed that, as the manufacturer is unknown to the consumer, when his goods do not bear his name there is little incentive for him to keep up the quality of the product. If true, this means that there is a tendency for the quality of the goods sold under the jobber's label to deteriorate.

Goods should bear producer's name.—It is impossible to say from the evidence now available whether the jobber's brand has an effect upon either the price or quality of goods bearing such brands. Without opposing the use of jobbers' brands it seems to the author that all goods so branded, which are not produced within the jobbers' own plants or under their direct control, should bear the name and address of the producer; and if produced in the jobber's own plant, the label should so state. The consumer has a right to know where and by whom the goods are produced and the producer has a right to have his name on his own goods. This would not interfere with the development of the jobbers' brands as the names of the producers could be relatively inconspicuous. This policy is often followed in packing fruits sold under an association label. Each package bears the name and address of the grower. This does not detract from the prestige of the association's brand, but does allow responsibility for inferior goods to be properly placed. This same plan has been followed with other products, and its use could well be made general with goods marketed under dealer brands.

The Wholesaler's Expenses and Profits

Typical figures showing the gross and net profits and operating expenses of wholesale dealers are given in the following paragraphs. A fuller discussion of the meaning, relation and control of profits and expenses is given in Chapter XVIII.

Meaning of gross profit.—In the merchandising business, it is customary to consider gross profit as the difference between the cost of goods to the merchant and the price for which they are sold. The expenses of conducting the business are deducted from the gross profits and the remainder is the merchant's net profit. The public is primarily interested in the gross profit made by the merchant, as this contributes directly to the selling price of the goods. The merchant, on the other hand, is primarily interested in the net profit, that being what he has left for himself. He is only interested in gross profits as the latter affects the net profits. Gross profits may be expressed as a percentage of sales, that is selling price, or of the cost of goods sold. The former method is now the more generally used. Net profits may be expressed in either of these ways or as a return per man, or as a percentage on the invested capital. The merchants are primarily interested in the two latter figures, as they want to know what they get for their services or for their capital hazarded in the business.

Variation in gross profits.—The gross profits of the wholesalers vary with the nature of the business done, the amount of competition encountered, and the ability of the individual concern. The gross margin of profit necessary in order to make a reasonable net profit, depends upon the rapidity with which the capital can be turned; the size of the units dealt in or the value of the individual sales; and the care with which the goods must be handled. The dealer in perishable foodstuffs can turn his capital much more rapidly than the dealer in hardware. A considerable part of the advantage gained in this way by the perishable-foods dealer is, however, offset by the fact that many sales must be made at losses to prevent the goods spoiling. This is due to the constant changing of prices. The carlot dealer may turn his capital more rapidly than the dealer handling his goods through a warehouse. The carlot dealer also deals in much larger units than the ordinary jobber. For these two reasons he can operate on a much smaller per-

centage of gross profit than the wholesalers furnishing warehouse facilities and dealing in smaller lots of goods.

Wholesale grocers.—The percentage of gross profit made by wholesale grocers has commonly been reported as 10 per cent of sales. As a matter of fact the percentage varies widely between different grocers and on different articles. On staples it may be much less than 10 per cent, while on specialties it may be more than 25 per cent.[5]

The typical (modal) gross profits reported by the wholesale grocers to the Harvard Bureau of Business Research, with the highest and lowest percentages of gross profit, follow:

	No. Wholesalers	*Percentages of Gross Profits*		
Year	*Reporting*	*Typical*	*Highest*	*Lowest*
1916	108	12.0	17.2	7.7
1918	145	11.0	14.9	6.1
1919	159	11.1	18.0	4.4
1920	322	8.5	14.2	3.0
1921	344	9.6	18.7	3.9
1922	442	11.6		

Flour jobbers.—The average gross profits of a small number of carlot flour jobbers in the period from 1914 to 1917, varied from 3.8 per cent in 1915 to 6 per cent in the first half of 1917. The average gross profits of the small-lot flour jobbers during this period, varied from 7.8 per cent in the first half of 1917 to 10.2 per cent in 1914. The gross profit of less-than-carload flour jobbers in New York varied from 4.8 per cent in 1918 to 8.4 per cent in 1914.

Shoe wholesalers.—The typical gross profits made by 76 shoe wholesalers were equal to 17.6 per cent of sales in 1914, and 18.4 per cent of sales in 1917.[6]

[5]The percentage actually realized varies with changes in prices. If prices rise while goods are in stock the profits are increased, while if they fall profits are decreased and actual losses may occur. See Chapter XVIII for a fuller discussion of this point.

[6]The Federal Trade Commission in its report on the "Leather and Shoe Industries," presents 17 closely printed pages, showing the gross profits made by individual wholesalers on the various types of shoes handled for the years 1914, 1915, 1916, 1917, and 1918. These profits varied from 0.8 per cent of sales to 31.8 per cent of sales in 1914. In 1917 a few losses were reported, the largest being equal to 17.2 per cent., while the profits ranged as high as 43.1 per cent. At the end of this long table a short table is printed, showing the average percentages on cost realized on different grades of shoes. These percentages vary from 14.9 to 23.7 in 1914, from 16.2 to 24.8 in 1917, and from 18.9 to 26.3 in 1918. The figures given above as typical are the medians of these averages, expressed as percentages of sales.

The Wholesaler's Cost of Doing Business

Variation in expenses.—The wholesaler's expense of doing business varies with the nature of his business, his location in a large or small city, the efficiency of his organization and his rate of stock turnover. It must not be assumed that the cost of doing business is uniform for all jobbers in a given trade or within a given market. The expenses vary widely from one concern to another. This fact should be constantly borne in mind. Average or typical figures are, however, useful for making comparisons and also for memorizing purposes, as all of the variations can not be carried in mind. An average percentage of expenses is also useful to the merchants whose expenses are above the average, as it warns them that their costs are above the danger line and should be reduced.

Typical expenses.—The following are said to be typical expenses[7] for some of the principal classes of wholesale dealers:

	[8]*Percentages of Sales*
Specialty carlot dealers	1 to 2
Groceries	6 to 10
Hardware	15 to 18
Drugs	12½ to 14
Dry Goods	11 to 12
Clothing and Hats	15 to 18
Electrical Goods	17 to 18
Jewelry	20 to 25
Furniture	14 to 16

Wholesale grocers.—The large general jobbers have a much higher expense of doing business than the specialty jobbers. The large wholesale grocers in New York and Chicago have a cost of doing business of from 9½ to 12½ per cent of sales. The wholesale grocers in the Tri-State territory, Pennsylvania, New Jersey and Delaware, report expenses varying from 6 to 13 per cent. The average cost of doing business in this territory is slightly over 8 per cent of sales, while the typical cost in the South is given at 7½ per cent. Many of the smaller grocers have a lower cost of doing business. Costs as low as 5 per cent have been mentioned. This does not necessarily mean that the wholesale grocery business is one of increasing

[7] The relation of expenses to the size of the store is discussed in Chapter XVII.

[8] Figures from various sources. See also A. W. Shaw Co.: "How to Run a Wholesale Business at a Profit," 1918, page 4.

costs; but rather that the smaller grocers handle principally the staple goods which can be turned more rapidly, and that they pay less to high-salaried officials. The author has in mind such a firm in New York. The partners come to the store early and spend the morning in filling the orders received the preceding day. In the afternoon they go out as salesmen and call on the retailers. The goods are delivered by hired truckmen, and the only regular employee is a girl bookkeeper. This firm handles little but staple groceries which can be turned rapidly. There are said to be dozens of such firms in New York City. It is easy to see that they have very low operating costs. It is reported that the small wholesale grocers, whether in the cities or rural districts, are getting a larger and larger part of the business in staple groceries. This means that fancy groceries, relatively speaking, play a larger and larger part in the business of the large city wholesalers. As fancy groceries must be kept in stock longer and be handled with more care, large grocers have correspondingly heavier expenses.[9]

The following figures show the common and the highest and lowest operating expenses reported to the Harvard Bureau of Business Research by wholesale grocers. Interest is excluded from the common or typical expense figures, but is shown separately. Interest on both owned and borrowed capital is included, however, in the figures showing highest and lowest expenses, for the reason that it was not shown separately in the published report. A discussion of the propriety of including interest in expenses will be found in Chapter XVIII.[10]

The figures following are all taken from grocers who kept their accounts in accordance with a uniform system, or whose accounts could be adjusted to the uniform system. From this fact it is very plain that they do not include the small, cheaply operated wholesalers of the type mentioned.

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[9]It has been argued that the relatively high cost of doing business of the large grocery firms is due to the fact that their officers' salaries and general warehouse shipping and overhead expenses have increased faster than the sales—in other words, that the wholesale grocery business is one of increasing costs or decreasing returns. This, however, does not appear to be correct, for the simple reason that in such a highly competitive field the firms which could not hold their costs down would never have lived to become large. The correct explanation seems to be that these large concerns are handling a large percentage of fancy groceries, many of which are sold under their own brands.

[10]These percentages were itemized as follows for 1918:

Year	Number of Wholesalers Reporting	Percentages of Operating Expenses Sales = 100% Common Total	Common Interest	Highest	Lowest
1916	108	8.0	(1.5)	13.7	6.7
1918	145	7.6	(1.5)	14.8	6.2
1919	159	7.6	(1.6)	14.7	4.4
1920	322	7.4	(1.6)	17.4	5.0
1921	344	9.6	(1.9)	22.5	6.5
1922	442	9.4	(1.7)	....	...

Flour jobbers.—The average expenses of doing business of a small number of carlot flour jobbers, expressed in percentages of sales, were as follows: 1914, 1.6 per cent; 1915, 1.4 per cent; 1916, 1.7 per cent; first six months of 1917, 1.5 per cent. The costs of the small-lot flour jobbers, who maintained warehouses and sold in small lots, were much higher. Average percentages for a much larger number of small-lot flour jobbers were as follows: 1914, 6.8 per cent; 1915, 5.5 per cent;

Item	Lowest Per cent	Highest Per cent	Common Per cent
Total Sales Force Expense	0.41	4.88	2.2
Advertising	0.001	2.33	0.04
Other Selling Expenses	0.001	0.49	0.03
Total Selling Expense	0.48	7.59	2.4
Wages Receiving, Warehouse and Shipping	0.29	2.88	1.1
Packing Cases & Wrappings	0.01	0.48	0.05
Outward frt., etc.	0.01	2.2	0.4
Total Receiving, Warehousing & Shipping	0.83	3.09	1.59
Executive Salaries (as buying)	0.24	2.66	0.9
Office Salaries	0.25	1.57	0.7
Postage & Office Supplies	0.03	0.38	0.2
Telephone & Telegraph	0.01	0.14	0.04
Credit & Collection Expenses	0.001	0.37	0.04
Total Interest	0.42	3.29	1.5
Total Gen. Mgn. & Buying.....	1.19	3.92	2.0
Rent	0.12	0.94	0.35
Heat, Light & Power.....	0.02	0.4	0.06
Taxes (exemption bldgs.)	0.01	0.43	0.2
Insurance (exception bldgs.)	0.01	0.36	0.15
Repairs of Equipment	0.001	0.57	0.05
Depreciation of Equipment	0.01	1.39	0.14
Total Fixed and Upkeep	1.13	4.27	2.45
Miscellaneous	0.02	0.5	0.2
Losses from Bad Debts	0.01	1.71	0.22
Total Expenses	6.15	14.79	9.1

From "Bulletin No. 14," of Bureau of Business Research, Harvard University.

1916, 5.6 per cent; first six months of 1917, 3.5 per cent.[11] From these figures it can be seen that during this period of rising prices the cost of doing business did not increase nearly so rapidly as the price of flour.

Produce dealers.—The expenses of many wholesalers and jobbers of fruits and vegetables, and of butter and eggs are between 3.5 and 7 per cent, although the costs of jobbers dealing in small lots may be as high as 10 per cent. The carlot wholesalers have costs of from 1 to 2 per cent.

Shoe wholesalers.—The average expenses of 52 shoe wholesalers was 13.8 per cent in 1914, compared with an average expense of 13 per cent for 57 wholesalers in 1917.

The Wholesaler's Net Profits

Wholesale grocers.—The net profits as reported by wholesale grocers to the Harvard Bureau of Business Research are given below. Interest is excluded from common expenses, and hence the figure for common net profits is before the payment of interest. The high and low percentages are after the payment of interest, for the reason explained above.

		Percentages of Net Profits Sales = 100%		
Year	*No. Concerns Reporting*	*Common*	*Highest*	*Lowest*
1916	108	3.9	7.0	Loss 1.1
1918	145	2.3	4.7	Loss 0.9
1919	159	3.5	5.5	Loss 2.5
1920	322	1.1	4.3	Loss 9.9
1921	344	0.0	4.4	Loss 17.0
1922	442	2.2	...	.....

The large New York and Chicago wholesale grocers, during 1916 and 1917, had net profits ranging from 1 to 7 per cent of sales. The average was about 3.5 per cent in 1916 and 4.5 per cent in 1917. The percentage of net profits made by these large concerns was greater than that realized by the great majority of wholesale grocers throughout the country. This probably is due to the fact that they handle a larger percentage of fancy groceries and goods under their own brands, than most of the smaller concerns.

Other classes.—The carlot flour jobbers had average net

[11] Report of the Federal Trade Commission on "Flour Milling and Jobbing 1918," page 17. See also "Commercial Wheat Flour Milling," 1920, page 52.

profits varying from 2.3 per cent of sales in 1915 to 4.5 per cent for the first six months of 1917. The net profits of the small-lot flour jobbers varied from 2.4 per cent in 1915 to 4.7 per cent during the first half of 1917. The average net profits of New York flour jobbers varied from 1.4 per cent in 1918 to 3.5 per cent in 1916.

The typical net profits of the wholesale shoe dealers was 3.8 per cent in 1914 and 5.4 per cent in 1917.[12]

Net profits on investment.—The percentage of net profit earned upon investment is what the merchant is primarily interested in. A merchant would gladly cut his percentages of both gross and net profit on sales in half, if by so doing he could increase his stock turnover sufficiently to substantially increase the percentage of net profit on investment. The public is also naturally interested in the percentage of net profits on investment when it wishes to ascertain whether the merchants have been "profiteering."

Increase during periods of rising prices.—During a period of rising prices there is a tendency for the increase in rent, wages and overhead expenses to lag behind the increase in prices. This means that the percentage of expenses on sales tends to decline. If the percentage of gross profits on sales remains stationary the percentage of net profits on sales will be increased. If the expenses of conducting the business increase as rapidly as prices, the percentage of net profit on sales will be stationary, but the amount of net profits will be increased in the same proportion as the increase in prices. If prices double, the amount of net profit will be doubled. As the capital investment does not ordinarily increase as rapidly as prices, the percentage of net profit on investment is increased. If the amount of net profit is doubled while the investment remains fixed, the percentage of net profit on investment will be doubled. The opposite is true during periods of falling prices. Operating expenses tend to decline more slowly than prices. This reduces the percentage of net profit even if the percentage of gross profit remains stationary. When prices decline rapidly the merchants often suffer losses on inventory which

[12]These percentages (shoe wholesalers) are the difference between the typical gross profits shown for 76 concerns and the actual average expenses of 52 concerns in 1914 and of 57 concerns in 1917. The average percentages for identical concerns might vary slightly from these figures.

cuts down their rate of gross profit. In such cases net profit is very low, if not entirely wiped out.

During the War, speaking generally, the percentage of net profits realized on sales by all classes of dealers both wholesale and retail, either increased or remained stationary. Declines were the exception. This meant greatly increased percentages of net profits on invested capital. Whether this constituted "war profiteering" is a debatable point. The consuming public very generally felt that it did. On their side the dealers contended that they must make extra profits during a period of rising prices to compensate for losses incurred during a period of falling prices. They further contended that their own living expenses were increased by rising prices, and that interest rates also advanced so they should make a larger percentage of net profit on their capital invested in the mercantile business.

Wholesale dealers in groceries, shoes, furniture and flour.—Unfortunately, relatively few figures showing the percentages of net profit on investment are available. The Federal Trade Commission has, however, published figures showing the percentage of net profits on investment realized by a few large wholesale grocers in New York and Chicago for all or part of 1917, for 32 shoe wholesalers for 1918 and 1919, and for 22 furniture jobbers in 1920 and 1921. The percentages were as follows for the wholesale grocers: 12 months, 14.4 per cent; 10 months, 4.3 per cent; 6 months, 15.1 per cent, and 6 months 10.4 per cent. The shoe wholesalers had average profits of 22 per cent in 1918, and 31 per cent in 1919. The average profits of the furniture jobbers were 32.7 per cent in 1920 and 4.2 per cent in 1921. The average percentages of net profit realized on investment by the flour jobbers are shown by the following figures:

	Per cent Net Profit on Investment			
	1914	1915	1916	1917[1]
	Per cent	*Per cent*	*Per cent*	*Per cent*
Carlot Jobbers	37.5	24.3	31.5	60.7
Small-lot Jobbers	22.1	21.1	26.2	51.9

[1]Six months.

The Future of the Wholesaler

Threatened from both sides.—Many predictions have been made that the wholesalers were doomed and would soon be forced out of business. They are threatened from both sides.

Manufacturers when they become large tend to build up their own selling organizations and go direct to the retail trade. The large retailers also attempt to buy direct from the manufacturers. The department stores, mail-order houses, and chain stores are in a great many instances able to do this successfully.

Wholesale grocers.—The recent rapid growth of chain stores and the more recent organization of coöperative jobbing houses and clubs by the retailers, have threatened the very existence of the wholesale grocers. Not only this, but they were faced with the competition of the large Chicago meat packers, who were becoming very large factors in the sale of groceries, before the agreement was made between the packers and the Federal Department of Justice, under which the packers agreed to withdraw from the sale of groceries. Yet, in spite of all this competition the number of wholesale grocers does not seem to have been greatly diminished. The wholesale grocers seem to be holding their ground fairly well, but they appear to be losing relative to the increase in population and the total consumption of groceries. During the past year or so, many mergers of wholesale grocery houses have been reported. If the chain stores grow as rapidly in the next ten years as they have during the last decade, it would seem that many wholesale grocers will be forced out of business and the sales of others reduced.

Position in sale of shoes.—The statement has often been made that the great majority of the American shoe manufacturers were selling direct to the retail trade. The Federal Trade Commission, however, gathered figures from 730 factories producing over 293,000,000 pairs of shoes in 1917. More than 42 per cent of these shoes were sold to wholesalers or jobbers, 50 per cent were sold to the retailers, over 5 per cent were sold through the manufacturers' own retail stores, and 2 per cent were sold direct to the consumers by mail or in other ways. Some of the shoes sold to the wholesalers and jobbers may have been for the export trade, but these percentages show that the wholesalers are still a very important factor in the marketing of shoes.

Position in sale of hardware.—It is a significant fact that over five-sixths of the retail hardware dealers purchase over one-half of their goods from the wholesalers, and over one-

fourth of them buy over 90 per cent of their goods from the same source.[13]

Position in the sale of drugs.—The wholesale druggist handles most of the proprietary medicines; a large part of the drug store sundries such as cosmetics, rubber goods, soda fountain supplies; a large part of hospital and drug store supplies, surgical dressings, bottles and so on; 85 per cent of the pharmaceutical specialties; 25 per cent of the general pharmaceutical line; and a small part of the crude drugs, essential oils, and heavy chemicals.[14]

Position in sale of dry goods.—It was estimated in 1912 that about one-half of "dry-goods" and woman's ready-to-wear clothing was handled by the wholesalers. The jobbers handled considerably more than half of the convenience goods, and considerably less than half of the shopping lines.[15] Stores with pre-war sales over $200,000 generally bought direct, but bought many fill-in orders from the jobbers. Stores with sales less than $100,000, generally bought through jobbers, but often bought some shopping goods direct.

Position in sale of produce.—The butter and egg wholesalers are threatened by the competition of the large meat packers, but as yet their number does not appear to have been greatly diminished. The independent produce wholesaler has been threatened by the establishment of large selling organizations such as the Federal Fruit and Vegetable Growers and the American Fruit Growers, Inc. There has been also much talk of direct producer-consumer relations. Yet the produce wholesalers seem to do as large a business as ever in spite of repeated experiments by the producers in the field of direct-to-consumer selling.

Position in sale of farm implements.—Most of the farm implement manufacturers perform the jobbing function themselves through their own branch houses. "All of the large companies sold 95 per cent or more of their goods to retail dealers, whereas some of the smaller companies sold more than 50 per cent of their output to jobbers . . . About 90 per cent of the sales of all (26) companies combined were

[13]This statement is based on reports of 113 dealers made to the Bureau of Business Research of Harvard University for the year 1919. See this Bureau's "Bulletin No. 21."

[14]Federal Reserve Bulletin, Vol. 6, No. 11.

[15]Parlin, C. C.: "The Merchandising of Textiles," page 26.

made to retail dealers, 2 per cent to the farmers, and the remainder to jobbers."[16]

Wholesalers will continue to be important.—The wholesalers have exhibited a marked endurance and in spite of the different kinds of competition and the efforts to eliminate them made by both producers and retailers, are still an important part of the marketing machinery of the country. It appears, however, even if the number of wholesalers has not decreased, that they are handling a smaller percentage of the total merchandise sold in the United States than formerly. If the growth of large producing and retailing organizations continues as rapidly in the future as in the recent past, it would seem that the percentage of merchandise handled by the wholesalers must decline still further. In the past, large organizations have been formed for the production or marketing of goods, and yet a large number of small concerns have continued to exist and compete with them. Just as long as there are small manufacturers on one side and small retailers on the other, some type of wholesale dealer will be necessary. It does not appear that either the small producer or small retailers are going to disappear in the near future. The wholesalers may be expected therefore to remain an important factor in the marketing of merchandise.

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Questions—Chapter XIII

1. What is the work of a specialty salesman in the grocery trade? Why do the manufacturers employ such salesmen? Why has there been such a difference of opinion between the manufacturers and the wholesalers as to the work of such salesmen?

2. If specialty salesmen were not employed, how could new products be marketed? Is it possible for the general wholesaler to put real sales effort behind the goods which he handles?

3. What are the advantages of private brands to the wholesalers? Are such brands beneficial to the consumers? Should all goods bear the producer's name? Discuss.

4. The Doe Wholesale Grocery Co. is located in a large city and has a large trade. Recently, however, the company has noted that the growth of chain stores and coöperative jobbing houses has made it much harder to keep up the volume of sales. There are many consumers' coöperative stores, and company stores organized to sell the employees at slightly over the wholesale prices. These two latter types of stores are anxious to patronize the Doe Co. but the latter hesitates to sell them for fear of arousing the ill will of the independent or unit stores who regard the coöperative and company stores as "irregular" dealers. What policy should the Doe Company pursue? Why?

5. The Smith Wholesale Dry Goods Company has a prosperous business, principally with the dry goods stores in the small towns and with the rural general stores. There are several department stores in the larger towns and cities in the territory covered by this concern that buy most of their goods direct from the manufacturers but are willing to buy "fill in" orders from the nearby jobbers. Should this concern solicit this

business? Should they accept "fill in" orders when received? If so, at what price?

6. A manufacturer of low-priced shoes sells to some 100 wholesalers, two salesmen being sufficient to handle the sales. The concern is anxious to increase its sales and considers selling to the retailers direct, or establishing a chain of retail stores. What does each change involve?

7. A manufacturer of a line of breakfast cereals and special flours has been selling his goods in bulk to wholesale grocers. Recently he put out a line of branded packaged goods. He has also packed goods for the jobbers under the latter's labels. His own branded goods have shown encouraging sales and carry a larger profit than either the bulk goods or those packed under jobbers' labels. He desires to increase the sale of branded goods and considers employing specialty salesmen and advertising his goods extensively. Do you consider this a wise policy? Would it be better to establish his own distributing warehouses in the territory covered and eliminate the wholesalers? Why or why not? Should he continue to supply the jobbers with goods under their own brands?

Chapter XIV

UNIT STORES

Functions performed by retailers.—In this and the following three chapters, the operation of the retail stores is discussed.

The functions performed by the retailers are: storing, selling, dividing, wrapping or packing, transporting, assembling, financing, and risk-taking. The first three are perhaps the most important. A few retailers grade some of the goods handled, but as a rule the goods are graded previously.

One of the chief functions of the retailers is to store goods in locations close to the ultimate consumers. Retail stores that buy direct from the manufacturers have to store goods for longer periods than the small stores which buy from the wholesalers. The retailers are also important in the sale of goods. They exert a strong influence on consumer demand, many of their customers following their advice or suggestions in making purchases. A very large part of the time of most people employed in retail stores is occupied in selling. The advertising and window and show-room displays of the retailers are important factors in creating demand.

Dividing is an important function of retailers. They break the packages, wrap the goods, and sell to the consumers in the very small quantities desired by them. The retailers frequently deliver the goods to the homes of the consumers. Some dealers also bring many goods to their stores from the produce markets, freight stations, or wholesale warehouses in their own wagons or trucks, often paying the freight charges from the wholesale markets to the towns where they are located.

The assembling done by some retailers is very small as they obtain all of their goods from a few wholesalers. Other retailers, however, perform an important assembling function, buying goods from widely-scattered sources and bringing them together for the convenience of the consumers. Department stores, mail-order houses, chain stores, and large specialty

stores handling shopping lines are the types of retailers which are most likely to assemble their own goods. The retailers help to finance the marketing of goods by carrying stocks of goods and extending credit to the consumers. It is shown in a later chapter, however, that the retailers often receive more credit from the wholesalers and manufacturers than they extend to their customers.

Unit stores.—Retailing is the most familiar kind of selling. There are over one million retail stores in the United States; and, counting such dealers as bakers, restaurant keepers, hucksters, peddlers, and milk and ice dealers, there are over a million and a quarter retail establishments employing about three million people. There is one retail establishment for every twenty families.

The most common type of retail store is the unit store. A unit store is a store, generally a small one, owned and operated independently. It is contrasted with the chain store, the department store, and the mail-order house. General and specialty stores will be studied as typical unit stores:

1. The General Store

A general store carries the various classes of goods commonly used by its patrons. It differs from the department store in its organization rather than in the lines of goods handled. The classes of goods handled by a general store vary with the needs of the people from one section of the country to another, but groceries, hardware, and dry goods are practically always carried; and a very large part of the general stores also handle shoes, clothing, hats, and farm implements. There are from 150,000 to 175,000 general stores in the United States.

Inability to carry assorted stock of goods.—The general store has been losing business to the other types of stores, partly because of its inability to carry a stock of goods as well assorted as that of its competitors. Having to carry many classes of goods and yet having a relatively small volume of sales, it has been impossible for the general store to carry as complete an assortment of each class of goods as could be carried by the respective specialty stores handling the various classes of goods. The large mail-order house could offer a wider selection of goods than the general store. The general merchants very often failed to realize that their customers were

demanding a wider variety and a better grade of merchandise and so often did not seriously attempt to improve the quality and variety of their stocks.

Advantages of the General Store

The general store has several advantages when compared with the specialty stores, mail-order houses, and department stores.

1. Convenience of its location.—The convenience of its location gives the general store a distinct advantage in the sale of those necessities and standard goods which people buy frequently and in small lots. Its location means that delivery is quicker and that adjustments and exchanges can be made easily.

2. Personal contact.—The general merchant has a personal contact with his customers. This is a very important advantage, but one that many merchants fail to capitalize fully. This personal contact gives him the opportunity to render personal services, to employ personal salesmanship, and to make friends.

3. Can base credit on exact knowledge.—The general merchants have such an intimate knowledge of their customers that they can base extensions of credit on almost exact information. This fact enables them to render very valuable services to their customers through the extension of credit with the minimum of risk to themselves.

4. Low operating expenses.—The general merchants have a low cost of doing business. Their stores are located on cheap land which means low rent, or a small investment in land and building together with low taxes and depreciation. The general stores are usually situated where the cost of living and wages are low. The cost of doing business varies widely from one store to another, but the average for the general merchants was 15 per cent in 1915 and slightly over 13 per cent in 1918.[1] The decrease in the percentage was due to the increased prices of the goods sold as actual expenses increased. Although some classes of rural merchants have slightly lower percentages of expenses, the expenses of the general merchants are ordinarily lower than those of the city department or

[1]Federal Trade Commission Report on "Causes of High Prices of Farm Implements," 1920, page 260.

specialty stores handling similar lines of goods, and very probably lower than those of most mail-order houses.

Disadvantages of the General Store

The general store has three notable disadvantages as compared with other types of retail stores.

1. Small stocks.—The general store is unable to carry a large and widely-assorted stock of goods, and consequently is unable to supply all the demands of its customers.

2. Small buying power.—Owing to the necessity of purchasing goods in small quantities, the general merchant is unable to secure quantity discounts or to buy on the most advantageous terms.

3. Location poor for shopping trade.—The third disadvantage grows out of the location of the general store in the village or at the country crossroads. Such a location is excellent for the sale of necessities or "convenience" lines but very poor for the sale of "shopping" lines. When people want to select clothes, furniture, or any of the various other articles coming in the class of shopping goods, they want to "look around." They want to go to the city or to a town having at least three stores, where goods can be examined and prices compared. This is especially true of women, and it must be remembered that women buy a very large part of the merchandise sold by retail stores. Even if the cross-roads store carries the identical article eventually purchased, many people will still go where they have the opportunity of inspecting more goods prior to making the purchase.

4. Inefficiency.—The general merchants have often failed fully to utilize or exploit their advantages. Much of their loss of trade has been due to their inefficiency and their failure to keep abreast of ever-changing conditions. Very often they do not make the proper selections of stock. As previously pointed out, in the past they often failed to realize that the farmers were demanding a better grade of goods and newer types of merchandise, and continued to carry only the old familiar goods. Very few of them have an adequate accounting system and hence can only guess as to where losses occur and where profits are made. The absence of accurate records makes it difficult, if not impossible, to adopt a proper "mark-up" policy,

the selling prices often being arrived at in the crudest of ways.

The poor management or inefficiency of the general stores is not inherent, and perhaps as a class the general merchants are no more inefficient than some other classes of retailers. When a general store is efficiently managed, its chances of success are as good as those of many other types of stores.

Other rural stores.—There are numerous rural stores which have the same problems as the general store and yet which are not general stores. Many of these handle two or more entirely separate lines of merchandise and so can hardly be classed as specialty stores. The lines of goods handled by such rural stores vary widely. One dealer may handle hardware, automobiles, and lumber; another may handle hardware and farm implements; while a third may handle furniture, grain, and building materials. Farm implements, for example, are handled in connection with all classes of goods from hardware to general merchandise, while there are relatively few exclusive or specialty implement dealers. This means that, in many instances, the change from general to specialty stores is not complete. Regardless of their classification, rural stores have many problems in common. How to hold their trade in competition with the mail-order houses and city stores is a question of interest to all rural merchants.

Effects of the automobile on the rural merchants.—The introduction of the automobile into general use has meant much to the rural population. It has done much to destroy the isolation of American farm life. It enables the farmers to visit their friends, to see the movies, and to attend meetings more frequently than formerly. It enables them to get to town quicker and, so to speak, moves them closer to town. Furthermore, the automobile means visits to the more distant towns and thereby increases the number of merchants from whom the farmers in any given locality are able to buy. Farmers with automobiles commonly visit towns ten and fifteen miles away to make purchases, while to purchase special articles or to attend special sales they will visit stores forty miles from their homes. The use of automobiles is tending to concentrate business in the county seats and other similar towns and to take it from the cross-roads and small village stores. If such stores survive, it will likely be primarily for the sale of convenience lines.

Opportunity of town merchants.—The concentration of business in the towns gives the merchants there an opportunity to expand their business and operate on a much larger scale. Wide awake merchants by judicious advertising, by special sales, by bargain counters, and by attention to special types of services to the farmers have been able to increase their sales considerably. Careful selection of stock, with close attention to purchasing, enables such stores to carry large and well-assorted stocks of goods and to sell at prices that compare very favorably with those obtainable anywhere else. The application of efficient merchandising methods makes possible the building up of sales to very handsome proportions. Instances have been reported where such methods have built up sales running into the hundreds of thousands of dollars annually, while the million mark has occasionally been passed. It is unnecessary for the ambitious country boy to go to the city to find an opportunity for success in the merchandising field.

2. The Specialty Store

The specialty store is a store that handles one class of goods, such as hardware, groceries, or hats. There is quite a difference in the degree of specialization among specialty stores. Compare, for example, the small number of items handled by a hat, cigar, or candy store with the large number handled by the modern drug or hardware store. Originally the number of products handled by specialty stores was small, but with the increase in the quantity and variety of manufactured articles, many specialty stores have added more and more articles to their stocks. Consider the development of the hardware store. Fifty years ago "hardware" meant shelf goods, and such articles as stoves and saddlery were handled in separate stores.[2] Contrast this with the lines of goods handled by the modern hardware store. Builder's hardware, tinware, stoves, cooking utensils, nails, wire, cutlery, firearms, ammunition, seeds, garden tools, rope, bolts, carpenters' tools, kitchen furniture, small farming tools, woodenware, blacksmiths' supplies, and paints are some of the lines ordinarily carried by hardware stores at the present time. The drug store handles about as many different lines as the hardware store, while the modern department store has developed from the specialty dry goods

[2]Briggs: "Fifty Years on the Road."

store with its line of "dry goods," notions, and women's clothing.

Recent tendency toward greater specialization.—Of recent years there has been a tendency toward greater specialization, and strictly one-line stores have been established, handling, for example, only waists, hats or hosiery. In some cases such stores are organized as chains. Such highly specialized stores make possible minute attention to the selection, care, and display of goods. They obtain quick stock turnovers and have a relatively simple problem of management. On the other hand, they have few articles to bear the overhead expense and, because of their limited lines, their sales may be seriously affected during dull seasons. It is the old case of "carrying all the eggs in one basket."

Number of specialty stores.—It was pointed out in the preceding chapter that the specialty shop was the oldest type of retail store. It is still the prevailing type in the United States, and, if the specialty chain stores be included, it bids fair to continue as such in the future. The number of specialty stores handling some of the most important lines in the United States in 1918 was given by the J. Walter Thompson Co. as follows:[3]

Groceries	235,799
Hardware	49,426
Drugs	49,396
Shoes	49,152
Automobile Accessories	38,988
Garages, Repair Shops	44,085
Dry Goods	31,168

These figures are to be taken as only approximately correct. The total number of stores handling groceries—grocery stores, general stores, department stores, and so forth—has been placed at 400,000. The total number of retailers handling cigars and tobacco has been placed at close to 500,000.

A more detailed list of the number of specialty stores, for 1920, is given in the footnote.[4]

[3] "Population and Its Distribution," 1918, pages 198-203.

[4]

Groceries	239,236	Hardware	41,144
Butchers and meat dealers	122,105	Automobiles and accessories	28,768
Delicatessen	4,333	Coal and wood	26,556
Fruit	23,385	Lumber	27,687
Produce and provisions	34,473	Drugs	80,157
Candy and confectionery	40,091	Variety (5c, 10c, etc.)	5,968

Competitors of the specialty store.—The city specialty store competes with the department store, the chain store, and to a lesser extent with the mail-order house. The rural specialty store competes with the general store, the mail-order house, to a certain extent with the city department and specialty stores, and, in many parts of the country, with the chain stores. The chain stores are in most instances specialty stores, but their problems are so different from those of the individually owned or unit specialty stores that they will be considered separately. The individual specialty stores have certain advantages and certain disadvantages in meeting the competition from other types of retailers.

Advantages of Specialty Stores

1. Location.—The specialty stores often have an advantage over their competitors in the matter of location. The corner store in the residential section is ideally located for the sale of convenience lines. It is, however, as a rule no more conveniently located than the chain store or than the general store in a village. The department store must be centrally located and this means that it must be in the shopping district. People like to shop where there are several stores close together, and the department store is so situated. The downtown specialty stores are often just as conveniently located for the shopping trade as the department stores. In fact, they are frequently more accessible than many of the departments in the large stores, for the reason that the customers do not have to push through crowded aisles and go to upper floors.

This matter of accessibility is especially important when only one or two things are to be purchased. So, if several articles are to be bought, the one large store may be more convenient.

Hucksters and peddlers	50,402	Oil, paint, and wallpaper	6,577
Cigars and tobacco	19,141	Music	7,909
Clothing	46,653	Books	3,035
Dry goods, etc.	63,909	Stationery	5,951
Shoes	22,544	Agricultural implements	7,789
Jewelry	21,433	Harness	2,706
Furs	4,789	Florists	5,746
Furniture	26,013	Newsdealers	8,474
Carpets and rugs	1,132	Leather and hides	4,350
Art dealers, curios, antiques, etc.	5,999	Bicycles	2,221

U. S. Census figures.

2. Personal touch.—The opportunity of establishing friendly relations with their customers is one of the advantages possessed by the small specialty store. People like to trade where they are known and called by name. It is quite an asset for a dealer to remember the tastes of his customers, the style of clothes they wear, or the kind of food they like. This applies particularly in the case of men, who will frequently go out of their way to trade with a dealer they like. A few merchants have taken advantage of this fact, and card-index their customers so as to have always available, information as to the kind of goods each likes. A personal acquaintance with customers also facilitates the extension of credit. On the other hand, many specialty dealers fail to take advantage of their opportunity and do not make their customers feel any more welcome than if they were in an automat or a self-serve store.

3. Better assorted stocks.—The specialty store can often carry a larger and better assortment of goods in its line than the department store, general store, or mail-order house. There are, however, many exceptions to this statement. It often happens that the department store carries larger stocks in certain of its departments than any of the competing specialty stores. The specialty store does, however, offer an opportunity for a careful study of its line and for the purchase of goods especially suited to the needs of its patrons.

4. Quicker stock turnovers.—Close attention to the selection and care of stock, together with careful purchasing, gives the specialty store the opportunity of turning its stock of goods more frequently than in the case of the larger store which cannot give such detailed attention to all the different lines of goods handled. This opportunity is, however, often neglected.

5. Low operating expenses.—Many specialty stores do business at a lower cost than the department stores. This applies especially to those in small towns and outside the shopping districts of cities. The unit specialty stores, however, frequently have higher expenses than the chain stores and this is one reason why they have been losing so much business to the chain stores. The rural specialty store certainly has, or should have, as low or lower expenses than any of its competitors, unless it be some of the chain stores. The cost of doing business by the different types of retail stores will be discussed in a later chapter.

Disadvantages of the Specialty Store

1. Little buying power.—As a rule the specialty store buys in such small quantities that it is unable to secure price concessions or quantity discounts. In many lines it must still buy from the jobber while its larger competitors, the chain and department stores, buy direct from the manufacturers. The specialty dealers, through their associations, may decry such a practice as unfair, but it often goes on just the same. The specialty dealer usually has his time so taken up with the management of his store that he is not in a position to learn of special bargains in job or odd lots which are bought by the department and chain stores. If a manufacturer is in urgent need of money and must sacrifice goods to get it, he goes to the large stores which can pay cash and take a large quantity of goods. The small store can benefit from such sales only to the extent that the jobber passes on such price concessions to him.

This disadvantage in buying is probably the greatest handicap of the small specialty store. In the grocery field it has become so serious that the dealers realize that something radical must be done if their businesses are to be saved. Hence, the introduction of coöperative buying. The coöperative jobbing houses were mentioned in Chapter XII. These coöperative jobbing houses have grown very rapidly, and, by enabling the individual stores to purchase their goods more cheaply, may prove the salvation of the small dealers.

2. Stores not centrally located.—It was stated above that the corner store was well located for the sale of convenience lines. This means that it is poorly located for the sale of shopping lines. The neighborhood store is well located for the sale of goods to people in the neighborhood, but it is very hard to draw customers from a distance, which means that most of these stores can secure only a relatively small volume of sales. The location of such stores is an advantage but at the same time imposes a limitation on growth. The easiest way for a successful and energetic neighborhood merchant to expand is to open additional stores in other neighborhoods.

3. Advertising.—The neighborhood store is at a disadvantage in newspaper advertising, for the reason that it must pay for the entire circulation while a very small percentage of the

readers can be regarded as potential customers. It is, of course, possible partially to overcome this disadvantage by the use of handbills, neighborhood papers, where such exist, and other forms of local advertising. It is also claimed by some that the specialty store in the shopping district cannot advertise as advantageously as the department store for the reason that it has only one line to advertise and that it is not in a position to utilize newspaper space or the services of an expert advertising department to the best advantage.

4. Poor management.—Poor management is not an inherent disadvantage of specialty dealers, but it is a fact that a very large proportion of the small specialty dealers are very inefficient. Few of them have any special preparation for the management of a store except that acquired in previous "clerking" experience and many of them did not even have such experience prior to entering business for themselves.[5] Many retail dealers give little attention to stock-turnover. They know little about the proper display of goods. Few of them keep full or adequate accounts and hence cannot follow any scientific mark-up policy in making their prices. Still fewer have any scientific method of keeping stock or of ordering goods. Most of them have located their stores by guess without any careful investigation as to the desirability of the location. With these facts in mind, the wonder is not that the chain stores and mail-order houses have made such inroads on their business, but that they have been able to hold their own as well as they have. Those specialty dealers who have employed scientific merchandising principles in the management of their stores have, as a rule, had little to fear from any of their competitors.

Methods of increasing efficiency.—The specialty stores can increase their efficiency by carrying smaller stocks of goods and securing quicker turnovers, by closer collections, by the use of modern accounting methods, by careful training of salesmen and attention to customers, by better store service, and by proper buying. The studies of the Harvard Bureau of Business Research show that the retail grocers ordinarily have an average of 7.9 stock turnovers a year, but that twelve turnovers a year are practical for the ordinary grocery store. Closer collections mean smaller losses from bad debts and

[5]For a fuller discussion of this point read Nystrom: "The Economics of Retailing," 1919, pages 319 and 320.

more money with which to take cash discounts. Proper accounting methods enable the merchant to weed out unprofitable lines and to price his goods properly. More attention to the training of salesmen and the development of their interest and loyalty through prizes, conferences, bonuses, and so forth, will lead to increased sales, better care of stock and more attention to customers. Retail salespeople should learn to give customers real information about the merchandise and to wait on them in their proper turns. Better store service means keeping the store clean, taking better care of stock, better window displays, more care in displaying goods, and care in laying out routes when delivery service is furnished.

Conclusions

It is estimated in later chapters that the mail-order houses obtain four per cent of the retail business and the chain stores from five to ten per cent. If the mail-order sales be taken as five per cent, the chain store sales as ten per cent, and another ten per cent be added for the sales of the department stores, it is apparent that the unit stores, in spite of their general inefficiency, still handle 75 per cent of the merchandise sold at retail in the United States. The specialty, general, and other unit stores are still in control of the bulk of the retail trade of the country. The chain stores, which are growing so rapidly, are organized to operate a number of small stores. The large retail stores, although serving a useful function, apparently cannot replace the small stores. The retail store exists solely to supply goods to the consumers as needed and the small stores with their convenient locations, are better able to render this type of service in the case of many lines than are the large centrally located stores.

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Questions—Chapter XIV

1. Enumerate the advantages and disadvantages of the general store, and of the specialty store.

2. What effect is the automobile having on the relative importance of these two types of stores?

3. How has the small unit store succeeded in holding such a large part of the trade of the country, when it is so often inefficient?

4. Would it be in the interest of the public if the small neighborhood stores were abolished and retailing concentrated in large, centrally located stores? Discuss.

5. Clark Bros. conduct a general store in a town of 2,000 people. They have the oldest store in the town. It is well known and has enjoyed a large trade, but of recent years it has been losing trade to the specialty stores—grocery, drug, clothing and dry goods—that have grown up with the town. Its sales of dry goods, notions, shoes, and clothing have suffered especially. Should it discontinue these lines and carry only groceries, hardware, farm implements, and seeds? Should it go further and discontinue its grocery line and devote its entire attention to hardware and farm equipment lines? Why or why not?

6. Clark Bros. also are coming to feel mail-order competition keenly. Would the change of policy suggested above help them to meet mail-order competition? Can this store secure the trade of farmers having automobiles and living from 10 to 30 miles away? Discuss.

Chapter XV

THE DEPARTMENT STORE

Definition.—The department store is a retail store handling several classes of goods, one of which ordinarily is women's wear, each class being separated from the others in management, accounting, and location. In other words a department store is a store with a "departmental" organization, but we generally apply the term only to those stores which handle dry goods. Most of our department stores have developed from specialty dry goods stores and there is, in actual practice, no very clear distinction made between these two classes of stores. In the smaller cities and towns stores handling dry goods, notions and women's clothing are sometimes called "department" and sometimes "dry goods" stores. The real distinction is in the organization and not in the lines of goods handled. If such a store has the different classes of goods separated, with a manager for each class, and an accounting system that shows the sales, expenses, and profits separately for each class of goods, then it is a department store. If it does not have such an organization it can not properly be so classed.

The actual lines of goods handled vary widely from one department store to another. Some of the department stores handle only dry goods, shoes, notions, and women's clothing, while others handle practically everything that is used by the modern urban family—women's, men's and children's clothing, shoes, hats, furniture, carpets, household furnishings, stoves, dishes, dry goods, books, toys, sporting goods, automobile accessories, jewelry, toilet articles, candy, groceries, and so on.

Importance.—Dun's reference book lists about 1,800 department stores in the United States rated at over $10,000. The J. Walter Thompson Co. gave the number of department stores as 4,620 in 1918. Nystrom states that there are 100 department stores rated at over $1,000,000 each. Parlin

estimated that there were in 1912, 1,140 "textile" or department stores having sales of $200,000 or over. The United States Census lists 11,752 department stores in 1920. The department store is of especial importance in the sale of dry goods and women's clothing. It has been estimated that they sell over 40 per cent of the total dry goods and women's ready-to-wear clothing sold in the United States.[1]

Character of trade.—Most department stores are centrally located to secure the shopping trade and their principal business is done in shopping lines. They do some business in convenience lines, for when people go shopping they also purchase some of the small household necessities, such as thread or groceries. It has been thoroughly demonstrated that the specialty and neighborhood stores can successfully compete with the department stores in the sale of convenience lines, and the department stores have come to concentrate more and more in the shopping lines—dry goods, clothing, shoes, hats and household furnishings of all kinds. The convenience goods are generally where the shoppers will see them on their way to look at the shopping goods.

A woman's store.—The department store is primarily a woman's store. It is arranged for shopping, that is to say, the goods are well displayed and so arranged that the customers cannot fail to see them in passing from one department to another. Most women, apparently, like to shop, to look at different goods and compare their qualities, styles, appearances, and prices, and the department stores usually cater to their likes in this respect. On the other hand, it seems that men usually dislike to shop. They do not like the crowded aisles and the slow elevators. They prefer the smaller specialty stores, easily accessible from the street, where their wants can be easily and quickly supplied and where perhaps they can "pass the time of day" with the proprietor. Some department stores have tried to cater to the men by establishing men's departments with a truly masculine atmosphere and by advertising it as a man's shop. Such attempts have, however, not always been successful. One authority states that men's departments are more often successful in the East than

[1]Parlin, C. C.: "The Merchandising of Textiles," page 26. He estimated that these 1,140 stores sell 43 per cent of this class of goods. There are also a number of smaller department stores.

in the South or Far West, but that 85 per cent of the men's furnishings sold by department stores are sold to women.[2]

Changed living conditions.—The department-store owners realize that the women at present do a very large part of the purchasing for the family. This has come about as the result of changed living conditions. With the growth of manufacturing, many articles formerly made at home came to be made in factories. Practically all men's clothing is now purchased ready-made. It is unusual to find a city woman who even makes her husband's shirts or socks. A larger and larger part of the clothing for women and children is being bought ready-made, and less and less made at home. The same applies to food stuffs. Canned goods, bread, cakes, pies, and the like, are purchased already cooked. It has been estimated that 60 per cent of the nation's bread is now baked in commercial bakeries, which, if true, means that very few city housewives bake their own bread. Machinery, such as sweepers, washing machines, mangles and electric irons, has lightened the remaining tasks. Steam-heated houses with electric lights and modern plumbing appliances have eliminated much of the work of attending to fires, lamps, and to the carrying and heating of water. The purchase of factory-made goods and the use of labor-saving devices is not limited to the city dwellers. They are now coming into general use upon the farms; the farmer's wife, however, still has a great deal more work to do than her sisters in the towns and cities. These changed living conditions together with the smaller number of children in the modern family have given women time to do a large part of the family purchasing, a task which their husbands were glad to dispose of, and which the wives were equally glad to assume.

Importance of women as buyers.—Women now select not only their own and their children's clothing, but a considerable part of that worn by their husbands. They buy most of the food and a very large part of the house furnishings, although in the purchase of the latter it is not uncommon for husband and wife to shop together. It has been estimated that women now buy 24 per cent of the men's clothes, 90 per cent of the groceries and an average of 75 per cent of all the goods used in the home. These percentages are perhaps only guesses

[2]Parlin, C. C.: "Merchandising of Textiles," pages 20 and 21.

by well-informed people and are apparently based on urban rather than rural conditions. They may be taken to show the importance of women buyers to the present-day merchant.

Characteristics of women as buyers.—Women take more time to shop than men. They look at more goods, visit more stores, and take longer to reach decisions. It is said that women commonly look at goods at three stores before buying. More than 100,000 people enter some of the larger stores daily. A count on an average day, a Thursday in October, showed that more than 200,000 people entered one large New York store in one day. This store made 60,000 sales to these 200,000 people. The showing of goods to the people who don't buy adds to the expenses of retailing and hence to the cost of goods to the customers. "They also read descriptions and note details more carefully. The struggle of American families for social place and for more complete satisfaction of a very wide variety of want causes many women to think more of the pennies than do men. For this reason, sales at reduced prices mean much more to women than to men."[3] Women probably are better judges of quality than men and hence rely more on their own judgments and opinions and less on brands and trademarks.

Service.—In catering to the shopping trade most department stores have emphasized "service." They have extended credit liberally, have filled telephone orders, have installed extensive free delivery services, have sent goods to the homes of their patrons on approval, have made c. o. d. sales, have exchanged goods freely, and refunded the money in case of dissatisfaction. In addition to such services many department stores have installed special equipment for the convenience of their patrons; for example, rest rooms, writing rooms, auditoriums, theatres, children's play rooms, beauty parlors, restaurants, children's barber shops, telephone booths, and information bureaus. A charge is made for the services rendered by many of these, but they are installed or operated in most cases for the convenience of their patrons rather than for profit. The department stores wish to get people in the habit of visiting them frequently and attempt to secure their good will by supplying as many of their needs as possible. These services all increase expense.

[3]Nystrom, Paul H.: "The Economics of Retailing," page 33.

Competitors of the department stores.—The department stores compete with the large, centrally located specialty stores, with the small downtown specialty shops, with the chain stores, with the neighborhood stores, and to a lesser extent with the mail-order houses, and the rural stores for the country trade. The department stores have several advantages as compared with their competitors. They are also at a disadvantage in several respects. The principal advantages and disadvantages are summarized in the following paragraphs.

Advantages of Department Stores

Large purchasing power.—One of the principal advantages of the large department stores is the ability to purchase goods cheaply. Such stores buy in large quantities and can often secure quantity discounts or special prices. They very frequently buy direct from the manufacturers and eliminate the jobber's profit. Then, too, many manufacturers will make special concessions to have their goods sold by large department stores because of the advertising value of such sales. The department stores have expert buyers who are good judges of qualities and prices, and who are on the lookout for any special bargains. Most large department stores are in a position to make cash purchases from manufacturers who must sacrifice goods to realize money quickly. They also often buy in such quantities as to have goods made to their orders.

Location.—The central location of most department stores is an advantage in securing the shopping trade of people from all parts of the city and also of out-of-town shoppers. The ability to make all necessary purchases in one building and under one roof is an advantage, especially in bad weather and to persons who dislike spending a large amount of time and energy in shopping. The ability to buy all kinds of goods on one line of credit is also quite a convenience to customers as it saves the trouble of opening different accounts and paying several monthly bills.

Advertising.—The department stores are the largest users of newspaper advertising. It is said that they practically dictate the news and editorial policies of many of our metropolitan dailies. Be this as it may, they are in a position to use advertising space very economically. They draw trade from almost the entire circulating area of most daily papers

and hence pay for very little waste circulation. It is also stated that as they have many lines of goods to advertise, space can be used to better advantage; and that the expense of advertising any one line is less than that of a competing specialty store having only one line to advertise. Certainly when customers are brought to the store by advertisements of goods in one department they frequently make purchases in other departments. For this reason department stores often have made use of special sales and cut prices to attract people to their stores.

Delivery.—The large sales of a department store make possible a well-organized and efficient delivery system. Such liberal delivery policy of most department stores is quite a convenience to their customers, but as a rule they have higher percentages of delivery expense than do the specialty stores.

Expert supervision.—Department stores are usually large enough to employ experts to manage their various departments, to work out new merchandising policies and to train employees. For this reason the department stores are often in the lead in feeling and meeting public wants, in introducing new merchandising policies, and in working out new methods of stockkeeping and display.

Centralized departments.—A department store is in a position to realize certain economies from single centralized departments, such as accounting, credit and advertising, which serve the entire store. A single credit department, for example, can be operated more economically than would be possible if each department had to employ a credit manager. A single investigation of the standing of a prospective customer is sufficient. Smaller stores, unless they know their customers personally, must accept more risks, which means more losses from bad debts, or must incur relatively larger expenses for the maintenance of a credit department. The same is said to be true of the accounting and advertising departments.

Disadvantages of Department Stores

Can get only shopping trade.—The department stores are located to secure the shopping trade which means that they are poorly located for the sale of convenience lines. The smaller specialty and neighborhood stores have demonstrated their ability to hold most of this trade.

Abuse of services.—Many people take advantage of the liberal service policy of the department stores.

"The customer is always right" policy is abused by a certain number of people. The fact that department stores are liberal in this respect causes many people to make unreasonable requests and claims.

The practice of allowing women to select their clothing and hats in their homes is an expensive one. The woman who has three dresses or hats sent home with the expectation of keeping only one of them, is adding materially to the store's selling expenses. This practice involves not only the expense of calling for the rejected articles and of making the necessary bookkeeping entries, but the packing and handling causes a very rapid depreciation in their value. Not only this, but such a practice forces the store to carry a much larger stock of goods, for goods scattered all over town in the homes of prospective buyers cannot be shown or sold to others. A large enough stock must be purchased to allow for the goods constantly out of stock. Allowing customers to select goods in their own homes may be very desirable from the standpoint of the customer, but it is very expensive to the store.

Decentralization of policy.—In a large store with a proportionately large number of employees, it is most difficult to have the store's policies carried out in all departments at all times. The policy of the store may be excellent, but the actual practices existing in certain departments may be very poor. The statements or actions of certain employees may be just the opposite of those called for under the store's policy.

Poor salesmanship.—The salesmanship found in many department stores is very poor in spite of the fact that special instructors are engaged to train the salespeople. In a large store the salespeople have to be supervised by hired employees who are far removed from the owners, and often feel very little interest in the success of the store. Poor salesmanship is not an inherent disadvantage, but the fact remains that many of the large stores have so far failed to obtain as high an average standard of salesmanship among their salespeople as is obtained by many specialty and chain stores.

Lack of personal touch.—There is little opportunity for personal relations between buyer and seller in the department store, although a saleswoman here and there does build up

her own clientele. The opportunity of establishing friendly relations with customers is a distinct advantage to the small specialty store, but, as previously explained, an advantage that they all too frequently neglect.

Inability to cater to the ultra rich.—The department store is a store for the masses. As a rule it cannot build up trade in the exclusive lines demanded by the rich. Catering to the whims of this class is really the function of specialists, and a very large part of this trade goes to specialty shops. Such shops can better carry the kinds of goods desired, and furnish the service and "exclusive atmosphere" demanded by this class.[4]

High cost of doing business.—Owing to the expensive services rendered and the large overhead expenses, most department stores have high operating expenses as compared with the small specialty stores. Department stores, being centrally located, generally have high rents, but this is partly offset by being able to sell on floors above the street level. They must be in the shopping section, and if this section moves, the department stores must follow.[5] The elaborate service rendered adds materially to expenses. Liberal return and exchange privileges also increase costs.

Advertising expenses high.—The advertising expenses of department stores are generally higher than those of specialty

[4]A department store does at times cater to such trade in certain lines of goods, but a special department often has to be created so that a specialty store is really developed within the department store. The *New York Times* of October 24, 1920, described the development of such an antique department. This department not only has its own buyers and saleswomen, but its own stockrooms, its own packing rooms, its own packers, and even its own delivery wagons. It develops its own policies and renders individual service to patrons just as is done by the exclusive Fifth Avenue shops. Such a department is really a specialty shop which happens to be owned by a department store and located in its building.

[5]Over 60 per cent of the large and medium-sized department stores in New York (Manhattan Island), moved or went out of business between 1906 and 1916. Of 30 such stores in New York in 1906, 11 had gone out of business, and 8 had changed their locations by 1915. Prior to 1906 the department stores were below Twenty-third Street. Many of them were driven out of this section by factories and moved north of Thirtieth Street. The factories followed and threatened to force the stores to seek a new district. A movement was started to save the shopping section and keep the factories out of this district, which is bounded on the east by Third Avenue, on the north by Fifty-ninth Street, on the west by Seventh Avenue, and on the south by Thirty-first, Thirty-second, and Thirty-third Streets.—*Journal of Commerce*, January 4, 1916.

stores. Department stores may be able to utilize space to better advantage than specialty stores, but they, as a rule, advertise on a more extensive scale than most specialty stores. This is largely because they must attract customers from a wider area and because their window displays do not reach sufficient trade. They must constantly furnish a stimulus to induce people to visit stores at a distance from their homes. The average advertising expense of department stores was 2.4 per cent of sales in 1921, compared with average expenses of from 0.8 to 2.9 per cent by different classes of specialty stores.

Large delivery expenses.—High expenses are also incurred in rendering liberal delivery services. The department store may be able to operate a delivery system more economically than a small specialty shop could over the same territory. The small store, however, seldom covers such a large territory, and so has a lower percentage of expense for this delivery service.

Expense of developing systems.—The department stores must spend more money for the development of systems. Statistics must be gathered and compiled and experts employed to show the progress of the business and to devise methods and policies for the future. Most small stores would undoubtedly be benefited by better accounting methods, by giving more attention to changing conditions and by improved store policies. The small merchant, however, is in a position to know more about the condition of his business and the demands of the customers from personal supervision of his store and contact with his customers. The fact remains, nevertheless, that the department stores actually have higher expenses in this connection than the small stores.

Total expenses.—The Harvard Bureau of Business Research reports the average expenses of department stores as follows: 1920, 25.9 per cent; 1921, 27.8 per cent; and 1922, 27.1 per cent for stores with sales of less than $1,000,000 and 28.6 per cent for stores with sales of $1,000,000 and over. These costs are higher than those of many classes of specialty stores. Stores located in the shopping districts, catering to the shopping trade and competing with the department stores in delivery, credit and other services, however, appear to have expenses approximately equal to those of the department stores.

The Problems of the Department Stores

The department stores have the advantage of being able to buy their goods cheaply, but most of them have the disadvantage of finding it expensive to sell them. The high operating expenses seem to offset the low costs of the goods, so that the department stores and specialty stores compete on more or less equal terms, so far as selling prices are concerned.

Problem of management.—The question of efficient supervision and management is the department store's most serious problem. Many of these stores have grown so large that they have apparently outgrown their organizations. The owners are crying for more highly trained men and women with whom to build up organizations capable of operating their stores efficiently and economically. Yet, in spite of all their efforts, they seem unable to materially reduce expenses.

Do not attract the best type of employees.—It is difficult to secure intelligent and energetic salespeople. It is much more difficult to secure the necessary number of properly trained men and women for the higher positions, both in the merchandising departments and in the general offices. The department stores have not been attracting enough of the right type of young people. Young people entering business seem to feel that the department stores offer them no opportunity for success, hence, if ambitious they look elsewhere for employment. The complaint has been made that department-store employees are devoid of ambition or else feel that the department stores offer them no opportunity for advancement. This is especially true of girls. It is said to be difficult to find among their sales forces girls who are willing to study and work for promotion. Yet there is probably no other place in the business world that offers the successful woman as large a financial reward as the department stores. Perhaps this attitude is due to the fact that such stores have a large number of poorly paid employees and relatively few highly paid employees.

Success generously rewarded.—Success in the department stores is generously rewarded. Successful department managers earn ten, twenty-five and even fifty thousand dollars per year. Competition among the stores is keen for such

people and as long as their success lasts they are assured of highly remunerative employment. Ambitious young people expecting to enter business should consider seriously the opportunities offered by the department stores.

The Future of the Department Store

A generation ago the department stores were growing rapidly and were supposed to afford the most efficient method of retail distribution. During the last fifteen years they have grown very little as a class. The value of their sales has increased, but this is due to increased prices rather than to the volume of goods handled. The chain store appears to be capable of more efficient management and more economical operation. The department store, however, has come to stay. It serves a definite need in supplying shopping facilities. The chain store cannot supply such facilities without encountering many of the same problems now faced by the department stores. This is shown by the operations of the chains of department stores.

Questions—Chapter XV

1. What factors have contributed to the growth of the department stores?

2. What can you say of the importance and characteristics of women as buyers? What use have the department stores made of these facts?

3. Enumerate the advantages and disadvantages of the department stores.

4. The Brown Department Store located in a city of 500,000 has in the past been prosperous but in recent years the rate of net earnings has been decreasing. It is apparent that if some change is not made the store will fail in a few years. A survey of the situation shows that competition is very keen. As a result many free and expensive services are granted, such as liberal credit, unlimited delivery, delivery of goods on approval, c. o. d. sales; also rest rooms, nursery, and other special attractions to draw people to the store. As a result, overhead expenses are high. The labor turnover is high and many of the salespeople are poorly trained and indifferent to the interests of the store. The percentage of gross profits realized is as large as ever and the volume of sales has been on the increase. The percentage of expenses has been constantly increasing. What policies should be pursued under the circumstances?

5. The Imperial Department Store is located in a city of 150,000 people. It has been very prosperous and has accumulated a capital be-

yond its immediate needs. There does not appear to be much opportunity for increasing the sales of the lines now handled. The company considers the opening of a store in a smaller city 75 miles away, where there are several stores but none up to the standard of the Imperial. Another proposal is to add additional lines of goods such as furniture. Owing to the floor space needed by a furniture department, it would be necessary to add one or two more stories to the building. At the present time there are several specialty furniture stores in the town, all of which are very conservative and somewhat old-fashioned in their methods. What would each of these changes involve? Which would you recommend? Why?

6. Suppose the Imperial Department Store mentioned in the preceding problem decides to expand the business at its present location, but hesitates to start a furniture department because of the necessary capital outlay to secure the needed space, the slow turnover, and the difficulty of securing a capable manager. Instead it is proposed to install a men's department handling men's shoes, clothing, hats, and so forth. At the present time the store handles a small line of haberdashery, but not men's clothing or shoes. These departments can be placed on upper floors of the present building, or in rented first-floor space in an adjoining building, leased at the prevailing street floor rates in the shopping district. There are several specialty stores handling men's furnishings but so far none of the department stores have done so except on a very limited scale. Could the men's department be made successful? Would you advise starting this department in preference to a furniture department? Why or why not? If it is decided to install the men's department, should it be started on an upper floor or should the high rent be paid for the street-floor location?

7. Another proposal for the Imperial Department Store is to start a grocery department. At present the groceries are sold by small specialty stores and a few large downtown grocery stores. Chain grocery stores have recently appeared in the town but as yet have not attracted much attention. What do you think of the establishment of a grocery department?

Chapter XVI

THE MAIL-ORDER HOUSE

The mail-order method of doing business grew up contemporaneously with the department stores to supply the needs of the rural population for a greater variety and a wider selection of goods, and to furnish another outlet for the ever-increasing number of manufactured articles.

Classes of concerns doing a mail-order business.—First, there is the manufacturer who sells his product direct to the consumer, soliciting business by advertising and receiving orders by mail.

Second, there is the merchant, or middleman, who buys goods made by others and sells them to the consumers by mail. Such a concern may specialize on a small line of goods, but the best-known concerns handle a full line of a certain class of merchandise or several different classes of merchandise.

Third, there is the retail merchant who sells most of his goods over the counter, but who receives a certain amount of business through the mails. Several city department stores have operated mail-order departments to cater to the out-of-town or rural trade. Even the rural or small-town dealer who is very bitter in his denunciation of the mail-order houses seldom refuses to make a sale simply because the order is received by mail.

Fourth, there is the wholesale mail-order dealer, who sells goods to the retailers.

Fifth, any manufacturer or dealer who receives orders for goods by mail, in a broad sense may be said to be doing a mail-order business. A manufacturer may place orders for raw materials by mail without waiting for the seller's salesman to call. A wholesaler or a retailer may forward orders by mail when out of stock or when salesmen call infrequently. Practically every large business concern makes some purchases or sales by mail, and the total business done in this way by concerns not called mail-order houses is enormous.

Sixth, concerns advertising their goods in newspapers, magazines, circulars or letters distributed by the post office, are attempting to sell goods by mail. The advertiser may request the reader to go to the local dealer and ask for the advertised product, or he may request the reader to forward his order for this product by mail. The difference is in the method of delivering the product, rather than in the method of effecting the sale. When all of these methods are considered it is easy to see that the mail is an extremely important factor in the making of sales. By the mail-order house, however, is generally meant the manufacturer or dealer who receives orders for goods direct from the consumers by mail. The mail-order method is contrasted with the "over-the-counter" or the "personal salesmanship" method. The buyer orders goods from a printed description without having the opportunity of seeing the goods before purchasing.

Importance of mail-order business.—It has been estimated that the direct-to-the-consumer mail-order business amounts to 4 per cent of the total retail business of the country, and to 20 per cent of the rural retail trade.[1] These estimates cannot be taken as altogether accurate and are presented only to give an idea of the relative importance of the mail-order business.

The number of mail-order houses has been placed by Nystrom at over 2,500, of which 850 are rated at over $100,000.[2] A few facts about some of the large mail-order concerns may be interesting, and help the reader to appreciate the importance of the mail-order business. Sears, Roebuck & Company, of Chicago, has over six million customers, and receives 125,000 pieces of mail daily; Montgomery Ward & Company, Inc., of the same city, has about six million customers;

[1]See Nystrom, Paul H.: "Economics of Retailing," page 291. These two percentages, however, appear to be too far apart. Over 40 per cent of the population of the United States is rural. If all of the mail-order business was obtained from the rural districts, which is far from the truth, 4 per cent of the total retail business would equal only about 10 per cent of the rural business. The fact that the rural population has smaller per capita purchases owing to the home production of many things, would hardly explain such a discrepancy in the percentages. Evidently the total percentage of the retail business done by mail is over four, or the average percentage of the rural business is less than twenty. Certain rural communities are, however, said to buy considerably more than 20 per cent of their goods by mail.

[2]Nystrom Paul H.: "The Economics of Retailing," page 290.

and the National Cloak and Suit Company has 2,700,000 active accounts. The net sales of these three concerns follows:

Name	1915	1922
Sears, Roebuck & Company	$106,228,421	$160,648,152
Montgomery, Ward & Co., Inc	49,308,587	84,738,826
National Cloak and Suit Co	17,371,650	45,357,566
Total for Three Companies	$172,908,658	$290,744,544

Many of the other large mail-order concerns do not publish figures showing their sales. Mail-order houses, in common with other types of merchandising concerns, ordinarily give out few figures concerning their merchandising business. Some mercantile concerns appear purposely to refrain from publishing figures from which their gross trading profits, operating expenses, and rate of stock turnover can be computed.

Many manufacturers sell direct to the consumers. The Larkin Company and the National Cloak and Suit Company are two well-known examples. A large number of such concerns are specialty manufacturers. They often produce articles for use on the farm or in the home, such, for example, as cream separators, buggies, and washing machines. The field, however, is broad and practically every type of merchandise from fish to houses has been marketed in this way. Some of the large mail-order merchants have gone into the manufacturing business on a large scale. When the manufacturer sells to the consumer direct, all middlemen are eliminated. Many manufacturers who have adopted this method have apparently done so, however, to secure a larger volume of sales rather than to eliminate the middlemen's profits.

Fraudulent practices.—In the past there have been many concerns trying to defraud the public through the mails. There are undoubtedly some such concerns still in existence in spite of all that has been done by both governmental and private agencies to exterminate them. Many of the mail-order houses, however, appear to be just as honest as the concerns selling their goods in any other way. The public has learned to trust many of the mail-order houses and is much less suspicious of such houses than it was a generation ago.

Certain mail-order houses have, however, been guilty of untruthful advertising. Such practices are probably much less common among the reputable mail-order houses than among

the local department and specialty stores. The mail-order houses do an interstate business and use the mails extensively, and hence are under the scrutiny of the Federal Government. Local stores are often free from such scrutiny. Advertising that would bring a large mail-order house into court would often go unnoticed if done by local merchants.

Reasons for the Growth of Mail-Order Business

It was pointed out in Chapter VII that the mail-order houses grew up principally to supply the rural population with goods unobtainable at the local stores, and that their growth was made possible by quick and cheap transportation facilities. Such transportation facilities made possible not only the delivery of small shipments from a central point quickly and cheaply, but also a much better mail service. The improved mail service, especially the rural free delivery service, contributed to the growth of the reading habit and made possible widespread advertising. The growth of the mail-order business depended largely upon such advertising.

Increased standard of living.—The standard of living of the American people has increased materially during the past fifty years. The luxury of one day becomes the necessity of the next. Increasing prices of farm products during the twenty-five years, from 1895 to 1920, added materially to the prosperity of the American farmer. Following the Civil War, the level prairies of the Middle West were settled so rapidly that the amount of land under cultivation increased more rapidly than population, with resultant low prices. Since 1890, however, the population has been increasing more rapidly than the area of land under cultivation, and the general trend of prices was upward from 1895 to 1920.

New wants.—New wants have been acquired from reading, travel, and contact with others. It is human nature to want what we see others have. The children acquire new wants at school. The moving pictures have been an important factor in developing new wants, especially for house furnishings and clothing.[3] The same pictures are shown in Podunk as on

[3]"Every time there is a new movie play with girls in pajamas in them, then the women's pajama business takes a stride ahead. That was proved positively in 1916, when the pajama business for women had its first boom at the time that Billie Burke made a hit in the film play "Gloria's Romance." In it

Broadway. They have done much to nationalize styles. It is said that there is now less difference in the kind of clothes worn and merchandise purchased by people in different sections of the country than ever before in our history.

Desired goods obtainable from mail-order houses.—The mail-order house carried a greater variety of goods than the rural stores and many people were forced to buy away from home to get what they wanted. The mail-order catalog furnished the farmer's wife a substitute for the shopping trips of her city sister. The rural store was, however, partly to blame for its loss of trade, for it often did little to increase the variety of goods carried in stock or the efficiency of its merchandising methods.

Manufacturers forced to sell by mail.—Another cause contributing to the growth of the mail-order business was the great increase in the variety and quantity of manufactured goods. If a manufacturer finds it difficult or impossible to sell his goods through the regular trade channels he will very likely be willing to sell direct to the consumers or to supply their goods to mail-order dealers.

Low prices of mail-order houses.—A very important factor contributing to the growth of the mail-order business was the low prices at which the mail-order concerns offered their goods. They could often undersell the local merchants. They featured low prices in their catalogs and claimed to sell goods cheaper than any one else. The catalogs of twenty years ago were quite different from those of the present time in this respect. Whether the mail-order houses really undersold the local merchants, when delivery costs and services were considered, or not, they made their customers think that they did. At the present time, mail-order houses have not ceased to emphasize price, but many now lay greater emphasis on quality.

Advantages of the Mail-Order Houses

Ability to buy cheaply.— One of the principal advantages of the mail-order houses, in comparison with their competitors, is their ability to secure their goods cheaply. The mail-

she appeared in a nice little one-piece pajama suit and looked, as the women said, a "perfect dear" in it. The effect was instantaneous. From all over the country dealers sent in to the manufacturers saying: "Send us Billie Burke pajamas. Our shops are crowded with women asking for them." An interview with Sydney S. Samuels, in *New York Times*, December 5, 1920.

order houses buy in such large quantities that they are in a position to buy direct from the manufacturers and secure low prices or special quantity discounts. They have expert buyers who are constantly on the lookout for goods that can be bought cheaply. They can contract for the entire output of factories. The tendency of large mail-order houses to manufacture their own goods has been already mentioned. If such goods are produced as cheaply as those made by other manufacturers, the mail-order house can eliminate the selling expenses and profits of the manufacturer and jobber, and sell to the consumer at lower prices; or it can retain both profits for itself. What probably happens in most cases is that, regardless of factory costs, the mail-order houses try to price their goods somewhat lower than the prices of similar goods sold by the local merchants.

The low cost of doing business.—The mail-order houses have many economies in operation. They do not need to be located in the heart of a city. A location in the suburbs where land is cheaper and rents are lower serves their purpose just as well as an expensive downtown location. They can use labor more efficiently. Their clerks do not have to show goods to customers. No time is lost in waiting for patrons to make up their minds, or in showing goods to people who do not buy. A clerk in a mail-order house will handle several times the volume of business handled by a salesperson in an ordinary retail store. The mail-order houses have no expense for house-to-house deliveries.

Many mail-order houses give little or no credit to buyers. Sales for cash involve no loss of interest on "accounts receivable;" eliminate all losses from bad debts; save the expenses of maintaining credit and collection departments; and reduce the expenses of keeping books. Sales for cash mean that the company can pay cash for its purchases, and hence buy more advantageously. Many of the specialty mail-order houses, however, have liberal credit policies. "No cash with orders," "30 days' free trial," are familiar advertising slogans. Some of the larger houses have introduced a limited credit policy, and will now sell certain articles on the installment plan. Sears, Roebuck & Co. reported accounts receivable of $19,833,444 on December 31, 1919, and $40,478,778 on December 31, 1921. Such articles are generally items of relatively

large value such as farm implements and house furnishings. Credit sales are sometimes used to stimulate business during dull seasons. For example, farm implements may be sold on credit during the winter, while during the busy spring season cash may be required with all orders.

Quick turnovers.—The mail-order houses can handle a wide variety of goods without carrying large stocks. Many large articles are shipped direct from the factories and not carried in stock at all. Again, if goods are out of stock the orders may be held until new shipments are received. People ordering goods by mail do not expect to receive them immediately and hence are more patient in case of delays than when buying from the local merchants. The rate of stock turnover, however, does not appear to be any greater than that of efficiently managed department and specialty stores.[4]

Development expenses.—The mail-order houses often have little expense for developing new articles or designs or for introducing such articles upon the market. They very frequently handle only standardized goods for which a widespread demand has already been created. For example, the large mail-order houses did not handle gasoline engines until they were past the experimental stage and had come into general use. They have taken no part in the development of tractors, and yet it is not unlikely that when tractors become more perfect mechanically, when standardized types are developed by experience, and when farmers become more familiar with their operation, they will buy or make simple, standard models for their customers. Such a policy reduces their expenses, but renders somewhat unfair a comparison of their prices with those of the manufacturers who have borne all the expenses of experimenting, advertising, and demonstrating.

Advertising expense.—On the other hand, mail-order

[4]The mail-order concerns publishing their sales figures fail to publish their costs of goods sold, so that the rate of stock turnover can not be computed. if, however, the net sales be divided by the average inventory, a figure is obtained which may be used in comparing the operations of different years. For Sears, Roebuck and Company this division gives the following figures: 1914, 7.3; 1915, 7.5; 1916, 6.8; 1917, 5.3; 1918, 4.3; 1919, 5.2; 1920, 3.2; 1921, 2.1; and 1922, 4.0. These figures indicate a reduction in the rate of stock turnover. From 1916 to 1920 prices were rising and many dealers were buying somewhat in advance of their immediate needs, in other words, building up inventories in anticipation of future price advances. A serious slump in business was experienced during 1921.

houses have a high advertising expense. Catalogs must be sent to many people who do not buy, and to many who buy only occasionally. It was realized long ago that the expense of constantly searching out new customers would be prohibitive, and that re-orders from regular customers must be secured if the business was to be profitable. It is said to cost $1 to print and deliver a large general catalog. A single issue of 6,000,000, then, costs $6,000,000. The mail-order houses also have heavy expenses for handling correspondence and assembling orders. These expenses largely offset the economies from low rents, efficient use of labor, cheap clerks, quick turnovers, cash sales, and little work in experimenting and developing new products. It is doubtful if the total expenses of the mail-order houses are below the average expenses for many other types of retailers.

Total expenses.—The total expenses of efficiently managed mail-order houses have been placed by Sammons at about sixteen per cent of sales. The expenses of Sears, Roebuck & Company have been given as 15 per cent.[5] The expenses, however, vary widely between different houses. Nystrom reports the following expenses for nine concerns: One, 16 per cent; one, 18½ per cent; one, 20 per cent; one, 22 per cent; two, 24 per cent; two 25 per cent, and one, 26 per cent.[6] One large mail-order house is said to mark its goods for a 28 per cent margin of gross profit. Such expenses are below those of many city department stores, but no lower than those of a great many specialty stores. The rural dealers, however, feel most strongly the competition of the large and efficient houses, as the catalogs of the latter are widely circulated and comparisons are most frequently made with their prices. The rural merchants can, by efficient methods of operation, hold their expenses down to 16 per cent of sales or even less.

[5] *System*, June, 1914. In their reports Sears, Roebuck and Company combine the cost of goods and operating expenses. Assuming the gross profits to have averaged 25 per cent, the expenses decreased from less than 16 per cent in 1914 to less than 12 per cent in 1918, from which point they increased to over 14 per cent in 1919, to approximately 25 per cent in 1920, and to nearly 23 per cent in 1922. The gross profits, however, were probably much below 25 per cent in 1920, so that it is doubtful if the percentage of expenses was more than 2 or 3 per cent higher in 1920 than in 1919. If the average gross profits were more or less than 25 per cent, the percentage of expenses would be changed correspondingly.

[6] "Economics of Retailing," page 305.

The average expenses of all classes of dealers who handled farm implements, which includes nearly all types of rural dealers, were 14.6 per cent of sales in 1915, and 12.6 per cent in 1918. Approximately 50 per cent of such dealers already have operating expenses of less than 16 per cent.[7] The mail-order houses then have no advantage over the rural dealers, so far as operating expenses are concerned.

Low prices.—Owing to the ability to buy goods cheaply and the relatively low cost of doing business, the mail-order house can often sell at low prices. One of the chief reasons why many people patronize the mail-order houses is that they can, or think they can, buy goods more cheaply than is possible from the local merchants. The local dealers can often sell their goods as cheaply as the mail-order houses, but the opposite is undoubtedly true in many cases.

Farm implements as an example.—During 1916 and 1918 farm implements sold by a large mail-order house cost the farmers on the average from 20 to 25 per cent less, after paying the freight, than similar implements purchased from the local dealers. During these years, when prices were rising, the saving on mail-order goods seems to have been larger than usual, owing to the fact that the mail-order houses advanced their prices more slowly than the farm implement manufacturers and local dealers. This saving refers to price alone. There may be a difference in the quality of the goods sold and the service rendered. The local dealers may render more service by extending credit, giving advice, delivering goods on the farm, carrying repair parts, making repairs, and so on. Referring to prices and services, an official of a mid-western dealers' association said: "I have always said that I can take care of a difference of 10 or 15 per cent because of the service I render, and because of being able to make more prompt delivery—but when it comes to a difference of 25 per cent or

[7] Federal Trade Commission: "Causes of the High Prices of Farm Implements," 1920, pages 260 and 261. Sixty per cent of such dealers reported expenses of 16 per cent or less in 1915, while 81 per cent reported expenses of 16 per cent or less in 1918. The table from which these percentages were computed did not include salaries for all dealers as some of them did not pay themselves salaries. Under the Commission's rule, interest on borrowed funds was not included in expense. If interest on borrowed funds and salaries for all dealers had been included in expenses, it is safe to say that approximately 50 per cent of the rural dealers handling farm implements would have had expenses of less than 16 per cent of sales.

50 per cent (in price) it is something to consider. You can realize that it will take a lot of loyalty for farmers to patronize their home dealers when they save such a large difference in buying from mail-order houses."[8]

Freedom from local depressions.—The large mail-order house draws trade from a wide area and hence is injured little by local depressions. The merchant in the coal fields is injured by a strike of the miners; the dealer in North Dakota is greatly affected by a poor crop of spring wheat, and the storekeeper in the Virginia apple belt loses trade as the result of a killing frost.

Drawing power of the catalog.—The catalogs of the mail-order houses are generally well written. They often contain more specific information about the goods offered than can be given by the retail sales people. Instances have been reported of the farmer after studying the mail-order catalog being able to give the local dealer information about his own merchandise —a sad commentary, by the way, on the local dealer. The mail-order catalogs are generally well illustrated and their descriptions clear. A description often sounds better than the article looks. A great many people find such catalogs very interesting reading. The long winter evenings afford the farmer's family ample time to examine them carefully. The catalogs of the large mail-order houses are perhaps more read than any other books on many American farms. Many people would rather order from the catalog than go shopping. It certainly requires less physical energy, a point not to be overlooked with the hard-worked farmer's wife.

Disadvantages of Mail-Order Houses

Lack of personal touch.—One of the greatest disadvantages of the mail-order house is the lack of personal touch with its customers. The relations between the mail-order house and its customers must be impersonal. No friendly relations can be formed. The customers cannot meet the sellers personally. There is no opportunity for personal salesmanship. It was pointed out above that the catalog had a great drawing power, and in some respects was superior to the salesmanship of many retail salespersons. Such a condition,

[8]Federal Trade Commission: "Causes of High Prices of Farm Implements," pages 219 and 220.

however, only exists because of the poor salesmanship existing in many retail stores. Efficient personal salesmanship is much superior to the impersonal salesmanship of the catalog.

Customers cannot inspect goods before buying.—The fact that the customers are unable to see the goods before purchasing, places the mail-order houses at a distinct disadvantage. Many people dislike to buy goods without seeing them. This applies especially to clothing, household furnishings, and mechanical appliances. This fact probably explains why the mail-order houses have received relatively little business from the large cities. The people may believe that they could save money by patronizing a mail-order house, but they are loath to risk the goods proving unsatisfactory.

Many mail-order houses guarantee their goods and give their customers the full right to exchange or return any goods that are unsatisfactory for any reason. Such exchanges, however, take time and while they are being made the customer is without the goods. Adjustments, exchanges, and so forth, also require a certain amount of correspondence which many people dislike. Returns and allowances appear to be quite an important item. The returns, allowances, and discounts, reported by Sears, Roebuck & Company amounted to 5.7 per cent of their gross sales in 1915, 9.3 per cent in 1919, 8.2 per cent in 1921, and 11.4 per cent in 1922. Apparently the buyers became harder to please during this period, learned more of the return privilege allowed, or else the quality of the merchandise was not always maintained.

Delay in delivery.—Goods ordered by mail are not received at once. To obtain goods in this way people must anticipate their wants. This is inconvenient and often difficult. The mail-order houses do a large part of their business in "shopping" lines, although they sell large quantities of "convenience" goods. Many people will anticipate their wants for a part of their groceries, for example, but it would be very hard to buy the exact amount of every particular item in this way. The local stores in carrying stocks easily available to the buyers, perform an almost indispensable service.

Disadvantages of catalog.—Some people dislike to buy from catalogs. It is often difficult to form a very clear idea of the exact quality or construction of many goods from a printed description. Many people will order from a catalog only as

a last resort. Consulting it is very largely a matter of habit. Some people seldom, if ever, think of consulting the mail-order catalogs, while others seldom make an important purchase without doing so.

In periods of rapidly changing prices the catalogs may involve either the loss of money or the loss of trade. They are expensive and new issues cannot be printed and distributed every time prices change. While prices are rising, orders will be received for goods at the prices given in the catalog. This stimulates sales, but at times such orders may involve a loss, if filled. If refused, the house runs the risk of being considered unfair and of repudiating its catalogs. During a falling market the catalog prices may appear high soon after they are printed. This naturally curtails sales.

Can carry only standard goods.—The mail-order house must carry goods in wide demand. It cannot carry goods suited to the needs of particular sections or communities. This often places it at a disadvantage compared with the local stores, which can select goods adapted to the particular needs of their customers.

Cannot render high type of service.—The mail-order house is not in a position to render many services which can be rendered by the local merchants, for example, liberal credit; delivery to the homes or on the farms;[9] advice in selecting goods; assistance in getting up, adjusting, and repairing machines; carrying of repair parts close to the farmers, and so forth.

Tends to destroy community life.—This is an argument of a different nature, as it looks at the question from a social viewpoint. It is argued that the local store tends to draw people to a common point and hence leads to the development of a social center. The school and the church are frequently built near the store. Other stores appear and a village develops. It may, however, be denied that local stores are necessary for the development of social centers. From what has been said it is evident that the mail-order houses can never entirely eliminate the local merchants. It may also be argued that villages and social centers have already developed and

[9]In certain cities the mail-order houses have arrangements with draymen to receive shipments and deliver the goods to the buyers. The buyers must pay for the delivery, but such an arrangement gives them the benefit of lower rates.

that their existence would not be threatened by a part of the local dealers going out of business. The social changes produced by the automobile must also be considered. It has been stated that the automobile is already taking business from the cross-roads and small village stores and concentrating it in the county seats and similar towns. The automobile may also draw people together in larger centers and eliminate the need of so many small social centers.

Can the Rural Merchants Meet the Mail-Order Competition?

It has been demonstrated that the rural merchants can meet mail-order competition. The mail-order houses have only two real advantages over the country merchants—ability to carry a larger assortment of goods, and ability to obtain their goods more cheaply.

Can carry carefully selected stocks.—The local merchant cannot carry as large or varied stock of goods as the large mail-order houses. He can, however, carry a stock especially selected to meet the needs of his customers, while the mail-order house can handle only standard goods in wide demand. By a careful selection of goods and without increasing the total investment in stock, many rural merchants could carry a greater variety of goods than they have done in the past. This can be done by buying a smaller quantity of each article and re-stocking more frequently.

Can meet mail-order competition with mail orders.—The local merchant can also meet mail-order competition with mail orders. He can obtain catalogs from mail-order houses which sell to the merchants and, when he hasn't the desired article in stock, offer to order it for his customer.

As the local merchant's offer relieves the customers of the details of making out and mailing the order, and as he is responsible for the delivery of the merchandise in good condition, and perhaps also is willing to extend credit, he has more than an even chance of making the sale.

Can render higher type of service.—The local merchants are in a position to render many services which are out of the reach of the mail-order houses. Orders by mail must generally be made without an opportunity of previously inspecting the goods. The local merchant offers prompt delivery

of goods, while the person ordering by mail must wait several days or weeks for his goods. This is especially important in the case of necessities and of repair parts. In the case of necessities, ordering by mail involves the forecasting of every need several weeks in advance. Experience has repeatedly shown that the great majority of people will not buy such goods in this way if a more convenient source of supply is available. Prompt delivery of repair parts is very important. Exchanges and adjustments can be made much more quickly when goods are purchased at home than when ordered by mail from a distant city.

Extension of Credit.—Another service very generally rendered by the rural merchants is the extension of credit. It is a well-known fact that the farmers have been accustomed to buy their supplies very largely on long-term credits and many of them could not have bought on any other basis. In the one-crop sections of the West and South, payment once a year is still common. The farmer could not have obtained this credit service from the mail-order houses even if some of them have come to sell on credit.

Higher cost of goods.—The rural merchants often cannot obtain their goods as cheaply as the mail-order houses, which can buy in large quantities direct from the manufacturers or can manufacture the goods in their own factories. By careful buying the local merchants can often meet mail-order prices. They should, however, to a very large extent be able to overcome this disadvantage in price by superior services which they are able to render. The officer of a Mid-Western dealers' association was quoted above as saying that he could take care of a difference of 10 or 15 per cent because of the service he rendered and because of his ability to make more prompt deliveries. Whether 10 or 15 per cent represents the actual value of the dealer's service to the consumers or not, it cannot be denied that the dealer is able to render valuable services which, in many instances, counterbalance the lower price of the mail-order house.

Appeal to loyalty.—Too often the local merchants try to hold business by telling the farmers that it is their duty to trade at home. This is poor policy as the farmers often have little in common with the merchants and feel under no obligation to support them. The farmers are under no obligation

to spend their hard-earned money at any particular place. The local merchants should realize that if they want the farmers' business they must deserve it on the quality and price of the goods sold and on the services rendered.

Efficiency in rendering service only claim for existence.— The local merchants claim that "to the retail dealer belongs the retail trade." They regard the mail-order houses as being irregular or "illegitimate" factors. They often refuse to purchase goods from manufacturers who also sell to mail-order firms. The only claim that either the local store or the mail-order house has for existence is that it renders a service more efficiently than any one else. If the local dealer does not perform a useful service as efficiently as can be done by others, he has no reason to be in business. If some dealers are driven out of business by mail-order competition, some temporary suffering may result, just as suffering may follow the introduction of labor-saving machines which throw men out of work. This, however, is not an argument against the use of labor-saving machinery. The mail-order houses are too well established to be longer regarded as experiments. The sooner the dealers quit asking for sympathy and go after sales on a business basis the better off they will be.

The Future of the Mail-Order House

The mail-order houses have had a rapid growth and are now a well-established part of the merchandising machinery of the country. There are, however, several indications that perhaps their period of rapid growth is at an end. First, several department stores have discontinued their mail-order departments. Second, the automobile tends to concentrate the rural trade in larger towns, where the stores are able to carry larger stocks of goods. The increased sales of the stores in these towns places them in a better position to meet the prices of the mail-order houses. The automobile also enables more people to visit the cities and increases the competition between the mail-order houses and the city stores. The third indication is the tendency of the large chain stores to open branches in the smaller towns in the rural districts. Such stores often buy on as advantageous terms as the mail-order houses. They are able to sell as cheaply and at the same time offer the consumers a convenient source of supply and the opportunity

of inspecting goods before buying. It is true that, so far, most of such chains handle groceries, drugs, novelties, or tobacco, which are perhaps not the most important lines to the mail-order houses.

Questions—Chapter XVI

1. Mrs. Jones finds that after paying the transportation costs, she can obtain muslin for 10 per cent less from a mail-order house than from a local dealer. What would be the advantages and disadvantages of buying from the mail-order house as compared with the local dealer? Would your answer be the same in the case of groceries, shoes, hats, rugs?

2. Farmer Schultz finds that he can obtain a plow for 20 per cent less (after paying the freight) from a mail-order house than from the local dealer. Should he buy from the mail-order house? Why or why not? Would your answer be the same in the case of a mowing machine? A gasoline engine? Nails? A set of blacksmith's tools?

3. The Giant Mercantile Co. handles general merchandise in a Kentucky town of 1,000 people. In recent years more and more of its customers have been ordering goods by mail. The loss of business is becoming serious. The farmers do not respond to the slogan "trade at home." The Giant Co. must purchase practically all of its goods from wholesalers, and is unable to meet mail-order (delivered) prices on many articles. Outline the policies that this concern should follow to improve its business.

4. The Farmers' Supply Co. is located in a Kansas town of 5,000 inhabitants. It handles all kinds of farm operating equipment. It handles well-known brands of implements and buys most of its goods direct from the manufacturers. It has enjoyed a large trade with the farmers for many years. Owing to the high prices existing in recent years, more and more of the farmers have been led, by the lower prices, to order farm equipment from the mail-order houses. Can the Farmers' Supply Co. stop this practice? If so, how? What policies should it pursue under the conditions?

5. The Blank Department Store is located in a large city. It has an old established mail-order department. During the War it was very hard to keep in stock all the articles listed in the catalog. It was often necessary to substitute other articles for those ordered, or to refuse the orders. After the War it was hard to issue catalogs because of the rapidly changing prices. Owing to these reasons the store stopped issuing catalogs, and now sends out monthly folders advertising a limited list of articles. The mail-order business is much smaller than it was 10 years ago. The managers are now debating the question of discontinuing

the mail-order department, or resuming the issuance of catalogs and the conducting of an active campaign to build a mail-order business large enough to be profitable? Which policy do you recommend? Give your reasons.

6. The X Carpet Co. produces a standard grade of carpets and rugs. It is dissatisfied with the sales made to the dealers and considers marketing its product direct to the consumers by mail. Would this be practicable? If so, outline methods to be followed. If not, why?

7. The Creamery Co. produces a high grade of dairymen's supplies, but owing to its poor marketing methods its sales have been decreasing. Could it stimulate its sales by advertising and direct sales to the dairy farmers? Why or why not? Would your answer be the same if the company manufactured a line of cosmetics? A grocery line made up of baking powder, spices, and soaps?

Chapter XVII

THE CHAIN STORE

Definition.—By a chain of stores is meant a number of stores under a common ownership and management. The number of stores necessary to constitute a chain is not clearly established. It would seem that at least three stores are required to make a chain. Thomas' Official Grocery Register considers that five grocery stores constitute a chain. Perhaps the distinction between a chain store and any other store is in the method of operation rather than in the number of stores under a common ownership. An individual or company may own several stores, but if no common policy is followed and each store is operated separately without using "chain store methods," the common ownership may not class these stores as a "chain." On the other hand a much smaller number of stores operating under a common policy, using uniform methods of display and selling at "cut prices," might be considered as a chain.

Growth of chain stores.—The growth of the chain stores has been briefly sketched in a previous chapter. Although not of recent origin they have had their principal growth during the past fifteen years. The rapid growth of this type of stores has forced thousands of individually owned stores out of business and has led some people to predict that none except the very large unit or individual stores could withstand their competition. Such predictions seem to have been at least premature. The rise of the chain stores has, however, been the most conspicuous recent development in the field of retail merchandising.

Importance of chain stores.—There is hardly a city of any size in the United States that does not have at least one chain store and most of them have stores operated by several chains. Some estimates have placed the number of chain store systems as high as 10,000. The exact number cannot be given, for the reason that no common definition exists as to just what

constitutes a chain, and also because new chains are being started so rapidly that any figures which might be compiled would soon be out of date. Perhaps an idea of the importance of chain stores can be obtained by considering the sales of a few of the larger chains. Figures are given below showing the sales of a few chain stores whose figures are available.

	Year	*No. Stores*	*Totals*	*Average per Store*[1]
Retail Grocery Chains:				
The Great Atlantic & Pacific Tea Co.	1922	7,500	$246,940,837	$32,925
American Stores Co.	1920	1,152[2]	103,059,303	89,460
Kroger Grocery & Bkg. C.	1922	1,605[3]	53,753,563	22,491
Piggly Wiggly Stores, Inc.	1922	659	31,534,312	.....
Jones Bros. Tea Co. (subsidiaries	1921	450[4]	21,889,045	49,531
Jno. T. Connor Co.	1922	381	11,662,035	30,662
Novelty Stores:				
Woolworth (F. W.) Co.	1923	1,263	193,437,449	153,157
Kresge (S. S.) Co.	1923	233	81,843,233	351,258
S. H. Kress & Co.	1923	152	34,005,464	223,720
McCrory Stores Corp.	1923	167	21,286,417	127,463
Grant (W. T.) Co.	1922	50	15,382,631	307,653
Murphy (G. C.) Co.	1920	60	*2,000,000	33,333
Department Stores:				
Associated Dry Goods Co.	1921	8	*35,000,000	4,375,000
Gimbel Bros., Inc. (Incl. Saks & Co.)	1922	4	83,550,694	20,887,674
May Department Stores Co.	1922	4	61,685,253	15,421,313
National Department Stores	1923[8]	10	72,331,456	7,233,157
Penny (The J. C.) Co.	1922	371	49,035,729	132,172
Wholesale Grocers:				
Austin, Nichols & Co.	1923	9[5]	*45,000,000	———
National Grocer Co.[6]	1922	14	13,464,646	961,732
Western Grocer Co.[6]	1922	14	17,948,603	1,282,043
Others:				
Louis K. Liggett Co. (Drug Stores)	1922	234	32,721,798	139,837
United Cigar Stores	1922	1,208[7]	73,691,981	.....
Owl Drug Co.	1922	43	11,025,088	256,397

*Approximate.

[1]Average per store understated in many instances as new stores were opened during the year and the number of stores stated as of close of year. Some of the stores were thus open only a part of the year.

[2]Number of stores as of 1919.

[3]Also 660 meat stores.

[4]During 1922 acquired Union Pacific Tea Co. with 52 stores in Kansas City, and during 1923 acquired Progressive Grocery Stores, Inc., with 68 stores in Westchester County, N. Y. Already controlled Globe and Grand Union chains.

[5]Sales estimated by Journal of Commerce, June 14, 1923. In January, 1924, acquired another branch (Rome, N. Y.).

[6]National Grocer Co. and Western Grocer Co. affiliated.

[7]Also 784 agencies.

[8]Year ending January 31, 1924. Two other stores acquired since.

The number of grocery stores operated by chains has been variously estimated from 30,000 to 50,000. One authority[1] lists 63 of the larger chains which operate 14,495 stores.

It is estimated that the chains sell 50 per cent or more of the groceries in several of our large cities. They are of less importance in the small towns and rural districts. It may be estimated that they handle about 12 per cent of the total food products sold by retail stores in the United States. The percentage of dry groceries handled is probably higher.

Hayward and White[2] enumerate 691 chains, of two or more stores, operating 2,627 retail drug stores. The twenty-one largest chains operate 747 stores, and are estimated to transact 6 per cent of the total retail drug-store business of the country. On this basis, the drug chains do more than 20 per cent of the total business done by retail drug stores in the United States, although they operate only about 5 per cent of the drug stores. This percentage of sales is probably too high, for the volume per store is probably less in many of the small chains than in the large chains. It is also questionable whether all concerns with two stores should be classed as chains. The same authorities list 35 novelty chains (5, 10, and 25 cent stores) with 2,244 stores; 38 dry goods and department-store chains operating 971 stores; and 8 hat chains with 232 stores. None of these lists are claimed to be complete. From available data it may be estimated that the chain stores handle between 5 and 10 per cent of all merchandise sold to the consumers by the retail stores of the country. Judging by all apparent appearances, the chain stores are, however, still in their infancy.

Classes of Chain Stores

Ownership.—Chain stores have been classified in several different ways. As to ownership, chain stores may be classified as retail, manufacturers', jobbers', coöperative, and retail buying associations.[3] Perhaps strictly speaking the two latter classes should not be considered chain stores. The coöper-

[1]Hayward and White: "Chain Stores," Chapter 22.

[2]*Ibid.*, Chapter 23.

[3]As an example of the latter the American Druggist Syndicate, an association of 16,000 retail drug stores, might be mentioned.—Butler: "Marketing Methods," page 84.

ative stores are owned by the consumers and at times are bound together through a common buying organization. The coöperative stores will be discussed in a later chapter devoted to coöperative marketing.

Retail chains.—The majority of our chains come in the first class—retail organizations operating several stores. Such chains generally operate their own warehouses and perform the functions of the wholesaler. As they become large they tend to enter the manufacturing field. For example, the Acme Tea Co., prior to its absorption by the American Stores Co., manufactured 10 per cent of the goods sold. The Kroger Grocery and Baking Co. has its own bakeries, abattoir, candy factory, extract and baking-powder factory, and preserve factory. The United Retail Stores Corporation, which owns the controlling interest in the United Cigar Stores, the United Retail Stores Candy Stores, and Gilmers, Inc., was organized to establish a system of manufacturing businesses and retail chain stores. The Schulte Retail Stores Corporation operates three cigar factories. The United Drug Co. manufactures a very large part of the goods sold by the Liggett Drug Stores, which it controls. The Jones Bros. Tea Co. processes or manufactures a large part of the goods sold by its stores and those of its subsidiaries. Many of the retail chains, however, do little or no manufacturing, serving merely as distributors to market the products manufactured by the producers.

Manufacturers' chains.—Among the manufacturers' chains must be mentioned the stores of the Winchester Co., the Singer Sewing Machine Co.; many of the chains selling shoes, such as W. L. Douglas, Hanan and Son, Regal Shoe Co., and many of the candy chains, for example, Huyler's, Martha Washington, Nunnally, and so forth. A few years ago many manufacturers started to establish their own retail stores, but they found that the amount of capital required was so large and the problems of management so serious that the number of such stores has not increased as rapidly as had been expected. Some manufacturers, however, maintain one or more stores in order to come into direct contact with the consumers and to develop methods for use by the retailers handling their products.[3a]

The McElwain Shoe Stores furnish an example of a manufacturer's chain of wholesale stores. The branch houses of

[3a] Haywood and White: "Chain Stores," pages 320-21.

the Chicago meat packers and farm implement manufacturers may be said to come under the same classification.

Jobbers' retail chains.—The ownership of jobbers' chains of retail stores is often concealed. There is also a likelihood that the jobber will become only a warehouse for his stores, and the chain come to be regarded as a retail chain. The wholesale grocers, to prevent their own elimination by the chain stores, have discussed the acquirement and operation of their own chains of retail stores. The chain started by a Chicago wholesaler is reported to have 400 stores doing an annual business of $18,000,000, one in Western New York has 270 stores, while an Arkansas wholesaler owns or controls 64 stores.

Wholesale.—Chain stores are generally considered as being retail stores. In a sense, however, a wholesale concern with several branches located in different cities and States might be considered as a chain store. There are several such wholesale concerns; for example, the National Grocer Co., Western Grocer Co., Austin Nichols Co., Butler Bros., and the National Drug and Chemical Co. of Canada, Ltd. One wholesaler estimates that there are 300 wholesale grocers who operate 825 branches. Several of the coöperative houses mentioned in the chapter on Wholesale Dealers also come under this category. Wholesale concerns, however, have problems different from those of the retailers and are not ordinarily thought of as chain stores.

Location.—Chain stores may be classed as national and local. There are few, if any, chains that have stores in every State, but there are several that have stores in so many States that they deserve to be classed as national chains. In this class might be mentioned the Great Atlantic and Pacific Tea Co.; F. W. Woolworth Co.; S. S. Kresge Co.; the United Cigar Stores; the Schulte Cigar Stores; the J. C. Penny Co. stores; the Jones Bros. Tea Co.; the Liggett Drug Stores; the Piggly Wiggly self-serve grocery stores and the Thompson restaurants. Almost every city of any size furnishes examples of local chains, handling either groceries or drugs. Many chains spread out in the territory surrounding the cities of their origin, and yet do not cover enough territory to be classed as national chains. There are many such chains. The American Stores Co., with stores not only in Philadelphia, but in eastern

Pennsylvania and the adjoining sections of New Jersey, Maryland and Delaware, and the Kroger Grocery and Baking Co., with stores in Ohio and adjoining States,are examples of such chains.

General stores.—The stores operated by the supply companies which make a business of catering to some of the large mining companies at their various mines may be considered as chains of general stores.

Hotels, restaurants, and theatres.—There are said to be 100 hotel chain systems in the country. The Bowman, Statler, and United Hotels are among the better known. A hotel having obtained a good reputation for excellent service in one town can use this reputation to build up a profitable business in another town. There are many chains of restaurants, lunch rooms, and cafeterias. Child's, John R. Thompson Co., and the Waldorf Lunch System, Inc., are among the larger concerns. Centralized purchasing and the benefit of a wide reputation are probably the most important advantages of the restaurant chains. Theatres are often operated in chains. This enables shows, entertainers, and films to be routed to good advantage.

Traveling stores.—In recent years quite a number of stores have been fitted up on motor trucks to sell to the housewives at their doors. Several itinerant stores are often operated by one concern and perhaps by a concern operating a chain of stationary stores. One Indianapolis concern reports 163 traveling stores, each capable of supplying 160 families a day. Some of the names adopted are: "Step-in-and-Shop" self-serve grocery stores, "Rolly Reds," "Motoreria," and "Servu Stores." Most of these traveling stores handle groceries and other articles usually carried by neighborhood grocery stores. Sometimes the housewife hangs out a card when she wants the store to stop. Some of the trucks are fitted up with a counter as any other store, while others are operated on the self-serve principle. The salesman or cashier acts as chauffeur and if the business justifies he may have an assistant. The stores generally carry refrigerators for meats, butter, milk, and similar commodities. The trucks ordinarily carry one day's supply, their stock being replenished daily at the warehouse, although supply trucks sometimes replenish their stocks during the day.

Convenience to the housewife is the chief advantage of such stores, but low operating expenses are also claimed.[3b] Such stores are especially adapted to suburbs, scattered residential districts, and thickly settled rural districts.

Department stores.—The chain-store movement has had its principal growth in the past among specialty stores. The movement, however, is becoming important in the department-store field. Some of the largest and best-known city stores are now operated by chains. The Associated Dry Goods Co. has eight stores.[4] The May Department Stores Co. controls four city stores with annual sales of some $62,000,000. The National Department Stores, Inc., has taken over the stores belonging to the Sadowsky group,[5] and now reports 12 stores.

The consolidation of Gimbel Bros., Inc., and Saks & Co., brings together four stores which had annual sales of some $83,500,000 in 1922. At first thought it would seem that the

[3b]Very little authentic information has been published giving the operating expenses of such stores. The rolling stores appear to have low selling expenses. *The Wall Street Journal* prints an article giving the sales of a truck store operated by one salesman-chauffeur as $1,000 a week. This would be $52,000 a year, or more than three times the average sales of salesmen in ordinary grocery stores. The large volume per man is explained by the fact that the rolling store drives from customer to costumer, so that the salesman is busy all day and has no idle periods as do the salesmen in stationary stores. The rolling stores have no rent for retail space, as their stores are in the streets. They have heavy expenses, however, for truck depreciation and operation. The depreciation on truck and equipment is apparently as high, or higher, than the rent paid by most retail grocery stores. The cost of repairs, gas, tires, and oil is probably almost as high as the delivery cost of most grocers. The rolling store has a high rate of stockturnover, which helps to reduce expenses. Such stores, however, must be operated from central warehouses and the cost of operating the warehouses must also be considered. We need accurate data showing the relative costs of operating the various types of stores. It may be that the traveling stores have no lower expenses than other stores and must make their appeal on their convenience to the consumers. Several operators of rolling stores have failed in their ventures. Some explain these failures on the ground that the traveling stores try to meet chain-store prices while they are so small that they do not have chain-store buying power. When such stores are operated by large organizations, this disadvantage would disappear. Stated another way, it appears from the meager information now available, that the expenses of traveling stores are not low enough to enable them to meet chain-store competition without having the chain-store buying power.

[4]The controlled stores are J. N. Adams & Co., the Wm. Hengerer Co., Buffalo; Lord & Taylor, and James McCreery & Co., New York; Powers Mercantile Co., Minneapolis; Hahne & Co., Newark; Stewart Dry Goods Co., Louisville; and Stewart & Co., Baltimore.

[5]*Journal of Commerce*, February 3, 1923.

operation of department stores involved too many complicated problems, and too much personal judgment in the selection of goods to meet a store's individual needs, to permit of successful operation by chains. The possibility of pooled buying—that is, of having one person buy for similar departments in several stores, of one foreign buyer for departments of several stores and of large quantity discounts—suggests worth-while savings from chain operation.

Chain departments.—Another type of chain store is the so-called syndicate which operates departments in several different department stores. This is coming to be rather common in the sale of millinery. Many department stores have turned their millinery departments over to syndicates which pay rent for the space occupied and a certain amount for advertising, delivery, and other services supplied by the stores. Many department stores were said to be losing money on their millinery departments in spite of their large mark-ups, owing to slow turnovers and heavy mark-downs. Overbuying and poor buying contributed to these results. The syndicates by frequent buying in small quantities secure a quick turnover and minimize style risks and mark-downs. This enables them always to have fresh goods in stock. They also encourage mid-season buying by their customers.[6]

Near chains.—A near chain is a group of independent store operators coöperating to copy chain-store methods, but without merging ownership. It includes coöperation in both buying and selling. Goods are bought coöperatively either through a buying club or a coöperative jobbing house. All member stores are supposed to conform to certain standards of quality, display, service, and sanitation; and to maintain a similarity of appearance. They can adopt uniform window and stock displays. If they desire they may employ experts to work out stockkeeping methods, accounting systems, and stock and window displays. The weakness, of course, is that there is no way to force members to adopt and follow such methods. Such stores may advertise coöperatively and unite on "drives" or "specials" which are placed on sale in all member stores at the same time and at the same prices.

Near chains are imitation chains. Their stores may look

[6] B. J. Garfunkel, of the Vogue Hat Co. and others, quoted in the *New York Times* of March 4, 1923.

like chain stores both outside and inside, they may operate on the cash-carry method, and they may be able to meet chain-store prices on many articles, but as long as they are owned separately they are not real chain stores. They are an attempt on the part of independent retailers to meet chain-store competition. It is doubtful if they can secure the same efficiency of operation as the better chains, or buy on as favorable terms as the larger chains. They should, however, be able to buy and operate as efficiently as many of the local chains, and at the same time retain the personal interest of the individual proprietors. It would seem that if they were successful, the next step would be a consolidation, each store owner turning over his goods, fixtures, and so forth, for stock in a corporation. We should then have a real chain owned by the managers of the various stores.

This type of coöperation is sometimes referred to as the "Cleveland Idea," owing to the fact that one of the first near chains to attract attention (the "Handy Service Stores," with 200 participating retailers) was located in that city. A slightly different plan is found among 100 retail grocers in western New York, who, by agreeing to buy all their groceries from one wholesaler, secure low prices. They operate on the cash-carry method, use a uniform name and similar decorations, and allow the wholesaler to inspect their books and records. The wholesaler also makes suggestions and gives advice.[6]

Kinds of goods handled.—Chain stores have had their principal growth in handling simple kinds of necessities. Groceries, drugs, and 5 and 10 cent articles were the first kinds of merchandise to be handled and are still the most important goods handled by chain stores. None of these, except the prescriptions compounded by the drug stores, require much personal service, and the prescription departments often occupy minor positions in chain drug stores. Most of the goods handled by these stores can be sold on a price basis, with window and counter displays as the principal methods of drawing customers and making sales. From these lines the chain

[6] *Journal of Commerce,* October 14, 1922, and January 26, 1924. This wholesaler said that he sold these stores for an average gross profit of 7.1 per cent in 1922. This would mean that they bought their goods for about 5 per cent less than most grocers.

movement has spread until we now have chains handling almost all classes of merchandise. Many chains have been organized to handle goods where quality, especially freshness or cleanliness, is important, for example, candy, cigars, and foodstuffs. Candy should reach the consumers as soon as possible. Retail stores owned by the manufacturers are well adapted to quick distribution. One of the early restaurant chains based its appeal on cleanliness, and did much to increase the standard of cleanliness in restaurants generally. Many chains now handle men's hats, women's hats and blouses, hosiery, and dry goods.

One or more chains are found handling nearly every type of merchandise. Chains handling shoes, gasoline, and bread are common. Newspapers, men's clothing, sewing machines, lumber, farm implements and paint are at times handled by chains. In some cases the kind of merchandise handled does not seem to be especially adapted to sale by chain stores. The explanation may be that some successful merchant expended his business by starting or buying other stores.

Advantages of Chain Stores

Buying power.—The ability of the chain stores to secure their goods cheaply is probably their most important advantage, and perhaps the only advantage that is inherent in their operation. The origin of many chains, however, is based on operating efficiency rather than on the low cost of goods. The parent store could buy no more cheaply than its competitors, except by the bargaining ability of the proprietor and the taking of cash discounts. When several branches were established the store insisted on lower prices and was in a position to secure quantity discounts. The next step was to eliminate the wholesaler and buy direct from the manufacturers through the latter's agents or brokers. In order to do this a wholesale department was often organized, as many manufacturers refused to sell to any except wholesalers. When several stores were in operation a wholesale or distributing warehouse was necessary anyway.

The buying ability of different chains varies widely. Some of the smaller local chains may have to buy on the same basis as other retailers. The large chains, however, are able to buy on very favorable terms. They purchase in large quan-

tities and pay cash so that they are able to buy at "inside prices," or secure the largest quantity and cash discounts. They are in a position to buy direct from the manufacturers, and hence buy on the same or even better terms than the wholesale dealers. They are able to pay cash, and hence can get price concessions from manufacturers who are forced to realize on goods quickly. Some of the chain store organizations have very efficient purchasing departments and skillful buyers who strive to buy at the lowest possible prices. They are on the lookout for bargains and odd lots, and may pick up goods in this way at exceptionally low prices. These buyers after securing the seller's lowest prices may insist on some additional concession, such as an extra commission or a forward dating of the bill. The chain-store buyers seem to be a match for, if not superior to, any other class of buyers in securing price concessions.

The large chain stores may be able to contract for the entire output of certain factories and secure the low prices obtainable in this way. The tendency of the large chain stores to manufacture their own goods, has already been mentioned. When goods are manufactured, the cost is presumably lower than it would be if the goods were purchased from other manufacturers.

The manufacturers operating their own retail stores can save the factory selling expense and also the selling expenses and profits of the wholesaler, if the class of goods sold ordinarily passes through the hands of wholesale dealers. If such manufacturers have as low a cost of doing business as the competing stores, the manufacturers can either keep these savings as profits, or sell their goods more cheaply than the competing retail stores.

Quick turnovers.—Most of the chains stores secure a quick stock turnover by efficient stockkeeping methods. Accurate records are kept of sales and purchases, and often of inventories. The individual stores carry relatively small stocks of goods, as deliveries are made frequently from the warehouses. This policy enables the stores to have fresh goods always in stock, which is an important factor in stimulating sales. A quick turnover is of especial advantage during a period of falling prices. The chain grocery stores often turn their stock from six to twelve times a year, including both the wholesale

warehouses and the retail stores. A stock turnover by the chain store is equivalent to two turnovers when the goods are handled by the wholesaler and retailer. The average turnover by wholesale grocers is given as 5.2 times per year. This means that it requires 70 days for them to make one complete turnover. The average turnover by the retail grocers is given as 7.9 times per year. This means a turnover every 46 days. Thus it requires 116 days for a complete turnover by both the wholesaler and retailer. A chain store operating its own wholesale warehouse and turning its stock 7 times a year requires only 52 days to effect a complete turnover. The chain store thus turns its stock in less than half the time required by the wholesaler and retailer. Stated another way, groceries sold through the chain stores reach the consumers in less than half the time required when they are sold by the wholesalers and retailers.[7]

Typical stock turnovers are: American Stores Co., 9.3 times in 1919 and 10.2 times in 1920; John T. Connor Co., 7.2 times in 1919 and 7.8 times in 1922; Kroger Grocery and Baking Co., 6.2 times in 1919, 7.7 times in 1921 and 8.0 times in 1922; Piggly Wiggly Stores, 11.1 times in 1921 and 10.6 times in 1922. The five and ten cent novelty chains have a much slower turnover than the grocery chains, turning their stocks from three to five times a year.

The advantage of quick stock turnovers is not inherent in the chain stores. An individually owned store, by using similar methods of purchasing, stockkeeping and selling, can turn its stock over as fast as the chain stores. The fact that the individual stores have not done so is due to their relative inefficiency.

Small stocks.—The high rate of turnover is, of course, due to small stocks in relation to sales. One method of reducing stocks is to carry as small a number of items as possible. Many chain stores try to reduce the number of items to a minimum, carrying only the articles, brands, and sizes most in demand. A chain store may carry only the one or two best known and its own brands of a given article, while a "service" store carries a half dozen or more brands to cater to the preferences of different customers. Getting rid of "dead stock" or "shelf

[7]When goods are manufactured or processed, the chain stores' turnover is equivalent to three turnovers.

warmers" undoubtedly reduces the amount of capital necessary to operate a store, and makes possible a quicker turnover. This is done, however, at the sacrifice of a certain service to the consumers. Some unit stores try to reduce the number of items carried in stock in order to compete with chain stores. Others try to carry a large number of items and brands making service the basis of their appeal for patronage. There is room for both kinds of stores. The store carrying the less-called-for articles and brands is very obviously of real service to many people.

One study showed that the chain grocery stores carried an average of between 400 and 500 items, compared with an average of between 1700 and 1800 carried by the independent grocers in the same city. Two typical stores in the same neighborhood were studied. The chain store carried 484 items, and had $2,000 worth of stock on its shelves. The private grocer had 1,784 items in stock with a total value of $8,000. The chain store turned its stock 12 times a year, and the unit store only three times. The saving on the money in inventory, $6,000 at 6 per cent, was $360 per year. While the lost discounts were estimated at $150 per year. Here then, was added expense of $510 per year, or 1.7 per cent of sales before rent, depreciation of stock and risk of price declines were considered.[8]

Efficient management.—Most of the successful chain stores have been efficiently managed. The small ones are under the direct supervision of the proprietor and the large ones are big enough to employ experts to manage the various departments and to work out new and improved methods. The expert buyers have already been mentioned. Such stores can also employ experts to train their salesmen, to handle their advertising, their window displays, their stockkeeping methods, their accounting systems, and their real estate departments.

Such chains generally have their methods of window display and store arrangement standardized. An expert works out window displays, for example, which are used by all the stores. Such displays are often better than those of the individual stores, as the owners of the latter ordinarily do not have much time to devote to such matters, and besides, they

[8] A writer in the *Kansas City Grocer* quoted in the *Journal of Commerce* of March 31, 1923.

lack the skill of the specialist. The same is often true of advertising, stock display, store management, and so forth.

Store managers.—In order to maintain efficiency, a chain must secure efficient managers for all its stores. A good manager generally means a successful store, while a poor manager means a failure. It is no easy matter to secure efficient managers for a large number of stores. The growth of some chains has been retarded by the time taken to secure and train men to manage the new stores. It would seem that the individual stores managed by their owners would be more efficient than competing chain stores managed by hired employees. It is proverbial that an owner will give closer attention to business than an employee. The chain stores, however, have generally met this problem by giving the managers an interest in the success of the stores. The managers may be paid a small salary and given a certain percentage of the sales or profits. The managers of grocery stores, for example, may be paid a salary of from $20 to $40 a week, and in addition, given one per cent or more of the total sales. This gives the manager a very immediate interest in the sales of the store, and usually secures his close attention to business. In addition to this, the managers of such stores are generally under very close supervision. One large grocery chain has a supervisor to every ten or twenty stores.

The chain stores have had their greatest development in the sale of simple and well standardized lines of goods such as groceries, or in highly specialized lines such as cigars, candy, and men's hats. Relatively few chains have undertaken the operation of stores handling a large variety of more or less complex goods such as hardware, dry goods, jewelry, and clothing. The management problem of such stores is much more difficult. The chains that have entered these fields have often given the managers large interests in the success of the stores, in some instances making them partners. In this way close attention to business and efficient management has been secured. In the case of city department stores, centralized buying appears to be the chief benefit to be derived from the centralized ownership of several stores. The problem of managing such stores is not changed by the ownership, although each store can benefit from the experiences of the others and some methods may be standardized. Purchases

can probably be made on somewhat better terms, or a saving realized by having one buyer secure similar goods for several stores, although such chains are generally large enough to purchase on pretty good terms while buying individually.

The efficient management of the chain stores is not an inherent advantage. There is no reason why the individually owned stores cannot be managed with equal or greater efficiency.

Advertising.—The chain stores are in a position to advertise to better advantage than the individual stores. With stores in all parts of the city no waste circulation is paid for when advertisements are carried in the newspapers, as is the case with the individual stores. This, however, is an advantage only to such chains as have several stores in the same city. Shoe, drug, or candy chains with only one store in a city are no better off in this respect than other specialty stores.

The large chain stores are also in a position to employ experts to handle their advertising. Some chain stores are liberal users of newspaper space, at times almost vying with the department stores in the amount of space used. Other chains do little or no newspaper advertising, depending almost entirely on low prices, window displays, and posters to attract buyers to their stores.

Rent.—Oftentimes the chain stores have an advantage over their competitors in the amount of rent paid for their store locations. The large chains have experts in charge of their real-estate departments. They lease their locations only after careful study. Very often the people passing the prospective locations are counted, "clocked," for several days and their character noted—whether shoppers, laborers, or office employees; whether on their way home from work, or strolling for pleasure. An excellent location for a cigar store may be a very poor location for a grocery store. If the number and character of the passers-by do not warrant the rent asked, the location is refused; and if the profits of any store do not justify the rent paid, the location will be given up. A location may be refused at one time and rented a few years later because the number of people passing has increased.

The desired locations are often purchased or leased for a long term of years. Handling many such transactions, the chain stores often drive better bargains than the individual

merchant who makes only one or two real estate contracts during his business career. The chain stores often have subsidiary corporations to handle their real estate. The chain stores also use space more advantageously. From experience they know just how much space is needed for a given volume of business and they refuse to rent a room that is too large, or they will divide the room and sub-rent a part of it. To secure desirable locations it is often necessary to rent much more space than is needed and some stores make a practice of securing such locations and sub-renting the unneeded space. This is especially true of stores such as cigar and drug stores, desiring locations on busy corners.

Individual dealers cannot afford to employ experts as is done by the large chain stores, but there is no reason why they cannot follow the same policies as those used by the chain stores in selecting locations for their stores.

Low cost of doing business.—The chain stores very often have lower operating costs than many of their competitors. They often can employ a cheaper grade of salespeople than other stores, owing to the fact that their methods are so highly standardized that little initiative is required of their employees. The rapid stock turnover also does much to reduce the percentage cost of doing business. The subject of stock turnover is discussed in Chapter XIX. The lower percentage cost of doing business coupled with low buying prices makes possible lower prices, and the lower prices in turn tend to draw people to the store and increase sales. A considerable part of the success of many chain stores seems to be due to the fact that low prices stimulate sales.

The advantages of cheaper labor, more rapid turnovers, cheaper rents, and judicious advertising do much to reduce the cost of doing business. The low cost of many chain stores is, however, to a large extent due to the fact that they operate on the economy, cash-carry, or non-service basis. This is especially true of the grocery chains.

Non-service method.—All chain stores do not operate on the non-service basis, but this practice is so common among them that it is frequently regarded as the typical chain-store method. The cash-carry method saves all delivery expenses, eliminates the cost of maintaining a credit department and making collections, prevents losses from bad debts, and

reduces the amount of necessary bookkeeping. Cash sales enable the store to secure the cash discounts on purchases and to save the interest on the capital tied up in accounts receivable.

It is difficult to say just how much these savings will amount to. Various studies of retail grocery stores show average expenses for delivery and losses from debts to be from 1.6 to 3.5 per cent of sales. Interest on the money tied up in accounts receivable and the clerical labor and postage involved in keeping records, mailing statements, and so on, would probably increase these averages to from 2.5 to 5 per cent.[9] This may indicate what the average grocer could save by going on a cash-carry basis. The cost of delivery and credit service, however, is more than indicated by these figures. These averages are based on stores doing a large delivery and credit business, and on stores doing little or no delivery and credit business. A study of the total cost of delivery and credit services by retail grocery stores in New York City during 1918 has been published by the New York State Department of Farms and Markets.[10] The figures are as follows:

	Poor Neighborhoods	*Medium-Class Neighborhoods*	*Wealthy Neighborhoods*	*Average Percentages. Sales=100%*
Delivery cost	0.6	1.7	3.7	1.7
Proportion of business delivered	10.0	32.7	86.6	37.3
Delivery cost if all goods were delivered	6.0	5.2	4.3	5.2
Loss on bad debts	0.3	0.3	0.3	0.3
Interest on outstanding accts.	...	0.1	0.3	0.1
Proportion of credit extended	19.4	27.0	75.1	33.3
Cost of credit service, if all goods were sold on credit	1.3	1.5	0.8	1.3
Total delivery and credit service cost if all goods were sold on credit and delivered	7.3	6.7	5.1	6.5

These figures show that it would have cost the New York City grocers 6½ cents out of every dollar to have sold all

[9]Average cost of delivery and bad-debt losses have been reported as 0.5 per cent for retail shoe stores, 0.7 for retail jewelry stores, 1.2 to 1.4 per cent for retail hardware stores, 0.4 for retail drug stores, and 0.6 to 0.9 per cent for wholesale grocery stores. Figures from Harvard Bureau of Business Research reports.

[10]Circular 240. The study was made by the New York Federal Food Board, a consolidation of Federal and State agencies.

goods on credit and to have delivered all goods in 1918. To this must be added the cost of clerical labor to make out sales slips, send out statements, make proper entries when bills are paid, and so forth. This would probably bring the total cost of credit and delivery service to more than 7 per cent. The figures for New York City in 1918 may not be the same as for other cities and other years. They show, however, that the items in the retailer's profit and loss statement do not ordinarily show the total cost of delivering goods and selling on credit.

One wholesale grocer in Toledo is reported as operating eleven branches on the cash-carry plan. These branches are located so as to be accessible to the retailers, who bring their delivery trucks, pay cash, and take their goods home. Operating in this way these branches handle goods on very narrow margins and are said to help the retailers to meet chain-store prices. They also enable the retailers to secure goods very quickly.

Limitation on use of economy methods.—The cash-carry method, when combined with low prices, has become very popular. There are, however, many people who desire delivery service, credit service or both. The wealthy very often desire both. The poor at times must buy on credit, and the busy housewife often desires delivery service. The cash-carry store cannot cater to all members of the community. To meet this situation, some merchants adopt the "three-way" price plan. For example, goods may be priced on a "credit-carry" basis and a discount allowed for all cash payments. A special charge of, say, ten or twenty cents is then made for all deliveries. Under this plan one charge is made for the goods, another for credit, and a third for delivery. Other stores use the "two-way" plan, one charge being made for the goods and an extra charge for delivery, no special charge being made for credit when granted. Chain stores sometimes adopt such methods, but the individual store has the advantage here, as it should be in closer touch with its customers and can adopt a method especially suited to the needs of its patrons.

Self-serve stores.—In the attempt to further reduce operating expenses, the self-serve store has been developed. This method has been used for several years in the cafeterias and has recently been introduced in grocery stores. In such stores

the goods are placed on shelves in easy reach of the customers and plainly marked with their prices. The customers pass through the store, select the desired goods and pay the cashier as they leave. No salesmen are required. The cashier and the clerks needed to replenish the stock on the shelves and to keep the store in order are all that are needed, except for the work of guarding against pilfering, purchasing, supervision, and general management. The great advantage under this system is the saving in the salaries of the salesforce, which is the largest item of expense in most retail stores. Such salaries amount to from 5 to 8 per cent of sales in many retail stores. The self-serve stores eliminate this expense, but substitute the expenses of checkers, cashiers and stockmen. The saving in wages in a self-serve grocery store with sales of $1000 per day has been estimated to average 68 per cent, as compared with a cash-carry store doing the same volume of business. A cash-carry grocery of this size would require ten salesmen, two cashiers, and two stockmen; while the self-serve store would require two checkers, two cashiers, and three stockmen. That is, such a self-serve store requires only half as many employees as the cash-carry store. The self-serve store, however, can use cheaper employees. Taking the average wages of good salesclerks as $25 per week, stockmen and checkers would ordinarily be paid $20 per week, and cashiers $15. The cash-carry store would then have a weekly payroll of $320, while the self-serve store would have a payroll of only $130. This is a saving of 68 per cent in the weekly payroll. The average wage expense in the cash-carry grocery store is between 5 and 6 per cent of sales, while the average wage expense in the self-serve store is between 2 and 3 per cent. Here is a saving equal to 3 cents out of each dollar paid by the consumer.[11]

There are often other savings in expenses. The self-serve store makes possible a greater volume of business in the same

[11]Bureau of Markets and Crop Estimates, U. S. Department of Agriculture, bulletin No. 1044, April 19, 1922. The report is based largely on information obtained from the following stores: Duffy Powers Co., Rochester, N. Y.; Hillman's, Chicago; Liberty Market, Indianapolis; The Grocerteria, St. Paul; Piggly Wiggly, Memphis; L. S. Ayres & Co., Indianapolis; Acme Stores Los Angeles; The Emporium, San Francisco; Bay City Mercantile Co., Santa Monica, Calif.; Grocerteria Stores Co., Seattle; Girard Grocery Co., Pomona, Calif.; and U-Save Stores, Cambridge, Mass.

space. When sales increase, due to a change to the self-serve method, such fixed expenses as rent, heat, light, and depreciation remain the same in actual cost, but decrease in relation to sales. If sales double, due to the introduction of the self-serve method, the percentage cost of these items in a grocery store will decrease from 2 per cent of sales to 1 per cent. The cost of advertising, management, and buying will also show a relative decrease, say from 3 to 2 per cent of sales. The savings enumerated above, amount to about 5 per cent of sales as compared with the average for a cash-carry store. In some particular cases the savings have amounted to 10 per cent.[12]. Taking the average operating expense of the retail cash-carry grocery as 12 per cent, this means an average operating expense for a successful retail self-serve grocery store of 7 per cent, while much lower expenses have been reported for certain stores.[13]

Psychological element.—The self-serve method generally pleases the customers. It allows them to look as much as they want and select their own goods. They use the principle recognized long ago by the 5 and 10 cent chains that "goods well displayed are half sold." The actual time spent in making purchases in a self-serve store is generally less than in a store where the customers are "waited on." Even if a customer spends the same amount of time in a self-serve store as in another store, she will leave the self-serve store in a better frame of mind. This is true for the reason that nearly all of her time has been spent in action, while in another store most of her time has been spent in waiting for a salesman.

Limitations on self-serve method.—The self-serve type of store is not a neighborhood store. It can reduce expenses only when a fairly large volume of business is available. Suppose a two-man neighborhood grocery changes to the self-serve method. It will still require two men to operate it and there will be little saving, unless sales increase. Many neighborhood stores have adopted the self-serve method only to go back to the personal salesmanship method. If, however, a

[12] *Ibid.*

[13] The Piggly Wiggly Stores have reported expenses for their Memphis stores of less than 3 per cent. The published report of this corporation for 1922, however, shows operating expenses of 12 per cent, not including general and administrative expenses. This expense figure, however, probably includes a considerable part of the wholesaling expense.

store is located where the change in method and reduced prices will double its sales, its percentage cost of doing business can be greatly reduced.

The self-serve method is practically limited to packaged goods, or to goods which come in units capable of being handled by the customers. When fresh meats are handled they must either be cut and marked with price tags in advance, or else personal service must be furnished as at other meat counters. Vegetables and fruit can be selected by the customers, but must be weighed and wrapped. Goods that must be fitted, such as clothing, shoes, and hats, are evidently not adapted to the self-serve method. In short, "shopping" goods in which the customers desire service or advice are poorly adapted to the self-serve methods. The method seems to be limited to staple articles which the customers can carry away with them. It is not limited by any means to groceries. One southern department store has adopted it in 18 departments—toys, hardware, household goods, and the like.[14] Some self-serve stores are operated by chains, and others by individuals. They are considered in this chapter because many of them have been operated by chains. Some of them have registered names; and at least one, a patented system. Persons desiring to use such names or systems must obtain permission and pay a royalty. Any merchant, however, is free to adopt the self-serve method.

Thievery.—Most stores lose some goods through theft by employees and outsiders. The accessibility of the goods in a self-serve store is said to offer a special temptation to theft. Some self-serve stores place such losses as high as 4 or 5 per cent, while others say it is negligible. It depends a good deal upon the neighborhood in which the store is located. One per cent is given as the average. Department stores which operate self-serve grocery departments generally find that persons arrested for stealing groceries have on their persons articles stolen in other departments.[15] Some stores require all packages to be checked before the customers enter the railing. Customers must then pay for all goods which they have when

[14]The Steele Smith Department Store, Birmingham, Ala., from the *Garment Weekly* of January 27, 1923, quoted in *Business Digest*, Advertising & Sales Promotion section, March 21, 1923.

[15]U. S. Department of Agriculture, Bureau of Markets and Crop Estimates, bulletin No. 1044.

they pass out by the cashier. Other stores have "spotters" who watch for theft. Such methods add to the expense of operating the stores. Small items of more than the average value are most likely to be stolen. These can be placed near the cashier or near the stockroom so that the cashier or stockmen can watch for people who try to conceal such goods on their persons.

Other economy methods.—Various other economy methods have been introduced. Some chains handle as many of their goods as possible in packages. Package goods save the time of the salesforce. They do not have to be weighed or measured, and need little wrapping. There is no loss from evaporation, leakage, or overweighing. They can handle them more cheaply, and many consumers prefer them because of cleanliness and a belief that they are of better quality.

Special methods of stock-keeping have also been devised. One southern chain worked out a system whereby the salesperson could reach any item by taking only a few steps. The shelves were deep and sloped toward the front. When the salesman removed one package another slid into its place. Under this system the space allotted on any particular item need be only a few inches wide.

The Ford Motor Co. operates a store for its employees, which seems to make possible a large volume of business per employee. In the grocery department the straight-line system is used, a long counter extends the length of the room. The customers pass in front of this in single file. The clerks hand over goods in standard-sized packages. Each customer is given a tag when he enters the room. Each clerk writes down the amount as he hands out goods. The clerks waste no time making out sales slips or running to the cashier, and wrap very few articles. When the customer reaches the end of the counter a cashier totals up the amounts on the tag and makes change. The customer has only one check to pay regardless of the number of items purchased. The store is operated on the cash-carry basis.[16]

Labor-saving methods of the types listed above are not limited to chain stores, but, relatively speaking, they have been adopted more frequently by chain than by unit stores.

Reduces wholesaling expenses.—It has already been stated

[16] *Journal of Commerce*, December 9, 1922, quoting the Boston News Bureau.

that the large chain stores commonly buy direct from the manufacturers, but that they must maintain wholesale warehouses and distribute the goods to their retail stores. The expenses of operating a chain store warehouse and delivery system is, however, much less than the cost of operating an independent wholesale establishment. This is true because the selling expenses, losses from bad debts, and the expenses of a credit and collection department are eliminated and the expenses of management and delivery are reduced. It is easy to see why the first three mentioned are eliminated. According to the Harvard studies[17] these expenses average over 2.5 per cent of sales in the wholesale grocery business. The expenses of management are reduced because the manager of a chain store warehouse does not need to be as high grade a man as the head of an independent wholesale concern doing an equal volume of business. There are no salesmen to be supervised and no separate financial department to be managed. When a chain store has several stores in the same city, it is in a position to effect a saving in the delivery of goods to its stores, owing to the fact that it can lay out its routes carefully. It can arrange its deliveries so that all stores in one part of the city receive their goods one day, those in another section another day, and so on. The saving in the expenses of management and delivery would likely amount to 1 per cent of sales. Over against these savings must go the expenses of the supervisors over the various retail units and the cost of checking, or revising, the orders from the local managers. One supervisor usually oversees about 20 stores. The chain also saves warehouse expense owing to the smaller number of items carried in stock. One chain carries only 1,550 items in its warehouse. A wholesale grocer doing the same volume of business would probably carry two or three times as many items in stock. The net saving in the wholesale distribution of groceries apparently averages over 3 per cent of sales, or about one-third the average total expenses of the wholesale grocers.

Total expenses of chain stores.—The total expenses of the chain stores, at least of the larger ones, include the expenses of the wholesale warehouses and retail stores, and sometimes of a certain amount of manufacturing. In spite of this they

[17]See Bulletins Nos. 9, 14, 19, and 34 of the Bureau of Business Research of Harvard University.

are often lower than the expenses of the individual retailers. In the sale of groceries, for example, the Harvard studies have shown the common operating expenses of grocery stores as 17.3 per cent in 1915, 14.6 per cent in 1919, and 18.0 in 1922. The Nebraska studies have shown average expenses of 14.6 per cent in 1920 and 18.5 per cent in 1921, while the average cost in New York City in 1918 was calculated to be 14.1 per cent.[18]

The common expenses of cash-carry chain grocery stores were reported to be from 11 to 16 per cent prior to 1920. Since that date they have been somewhat higher, 13 to 18 per cent probably being more typical figures for the years 1921, 1922, and 1923. These figures cover the expenses of both wholesaling and retailing and perhaps of some manufacturing, but do not generally cover the expenses of credit and delivery service. When all factors are considered the typical chain grocery store would have expenses about 6 or 7 per cent less than the typical combined costs of unit wholesale and retail grocery stores.

Low prices.—The ability to buy their goods more cheaply, combined with the lower operating expenses, enables most chain stores to undersell their competitors. In fact, the growth of the chain stores has been due largely to their low prices. It must not be inferred from this that they handle goods of a poor quality. As a matter of fact, many of them handle goods of a high quality. Some chains specialize on high-grade goods and others on medium or low grade goods. Park and Tilford, for example, claim to have the largest trade in high-grade groceries in New York City.

The rapid rise of the chain stores in the grocery field is explained partly by the fact that the rising cost of living has forced many people to economize on their grocery bills, and

[18]See Harvard Bulletins Nos. 3, 18, and 35; University of Nebraska Studies in Business, Bulletin No. 2, and New York State Department of Farms and Markets Circular 240. The following are typical chain-grocery-store expenses: American Stores Co. 12.3 per cent in 1918, 11.9 per cent in 1919 and 12.4 per cent in 1920; The John T. Connor Stores 14.4 per cent in 1919, 14.2 per cent in 1920, and 15.3 per cent in 1922. The Kroger Grocery and Baking Co. 13.6 per cent in 1919, 15.9 per cent in 1921, and 16.4 per cent in 1922. The Weisbecher Stores, while in the hands of a receiver in 1920 and a part of 1921, 19.4 per cent; an unnamed chain 5 per cent, and another unnamed chain similarly situated 20 per cent; and the average expenses of the 1,000 chain stores in Missouri 13 to 16 per cent in 1922.

has caused them to welcome any stores that made such economy possible.

The Secretary of the National Chain Store Grocers' Association claims that the chain grocery stores save the consumers 15 per cent, as compared with the unit stores. The chain store of Missouri in an argument before the legislature gave prices prevailing on typical and comparable articles in chain and unit stores in Missouri on February 20, 1923. These prices showed an average saving by the chain stores of approximately 15 per cent. The unit stores on their part will not admit any such differences in prices.

It must not be inferred that the prices of chain stores are always lower than the prices of individual stores. The opposite is not infrequently true. The author's own observations indicate that the large grocery chains generally have a marked advantage over the small independent stores in the sale of staple groceries; but that many individually owned, or unit, stores can meet their prices and very often undersell them on fruits, vegetables, meats, butter, eggs, and so on. Many chains do not handle such perishable foods, and when handled, such goods are often bought locally, which means that the chain stores cannot get the full advantage of large concentrated purchases as they can with staple or less perishable goods.

Cut prices.—Many chain stores follow the so-called "cut-price" policy. That is, they sell certain well-known goods at very low prices to attract people to their stores and give the impression of selling goods cheaply. The wisdom and ethics of such a policy will be discussed in a later chapter. This policy is, however, not limited to the chain stores. It has been used extensively by the department stores as well as by many other "cut-price" stores. The chain stores only adopted a policy already widely used.

Private brands.—Some large chain stores are handling a large part of their goods under their own brands. These brands will be an asset to the extent that they become widely and favorably known.

Disadvantages of the Chain Stores

Difficulties in management.—The difficulties in securing efficient management and close attention to business from hired

employees has already been mentioned. Many of the chain stores have been efficiently managed up to this time, but the danger of losses resulting from poor managers is always present. Poor management has been the reason assigned for the failure of certain chain stores in the past. It has previously been noted that companies organized to launch large chains of stores have generally failed, owing apparently to the fact that efficient organizations and trained store managers could not be secured.

Danger of too rapid expansion.—A rapidly growing concern may be so carried away with the idea of growth that it over emphasizes the importance of size and under emphasizes the importance of operating efficiency. Failure is the natural result of such a policy as this. Rapidly growing enterprises are always in danger of being obsessed with the present idea of size.

Lack of personal touch.—The chain stores are at a disadvantage in establishing friendly relations with their customers, as compared with the individually owned stores. A hired manager ordinarily does not take quite the same interest in patrons as the proprietor. Besides, managers are changed frequently in some chains. Some chains standardize their stores to such an extent that a manager or trained salesman can be transferred from one store to another and take up his duties in the new store without losing more than a few minutes in getting his bearings.

Lack of personal service.—The chain store is in a poor position to render individual or personal service. There is little individuality in their stores. The individual retailers are in a better position to supply service, such as credit, delivery and advice, than the chain stores. The chain stores must often lose business simply because they cannot render the services desired by some people.

Increasing efficiency of individual retailers.—The increasing efficiency and antagonism of the individual retailers is threatening the future growth of the chain stores. The retailers are coming to realize that whining does no good and that chain store competition can be met only by increased efficiency. Many retailers have realized that the chain stores have succeeded largely because of efficiency and that if they want to succeed they can well afford to study and adopt chain-

store methods. With the increasing efficiency of the retailers, the growth of the chain stores becomes more difficult. There is no reason why an individual merchant cannot manage his store just as efficiently as the chain store, select his stock as carefully, display his goods as well, and secure as rapid a turnover of stock. When he does so, the only real advantage left to the chain store is a lower cost of goods because of greater buying power. The retailer is now trying to offset this disadvantage by coöperative buying. If the coöperative jobbing houses and buying clubs succeed in supplying the individual retailers on a basis that will enable them to meet the chain-store prices, there is no real reason why they cannot hold their own with the chain store. The question then becomes one of the relative efficiency of the two types of dealers we are considering.

Danger of monopoly.—It is argued by some that there is danger of the chain stores forcing the individual stores out of business and then consolidating to form monopolies. Such a development in the grocery business would mean a monopoly in the distribution of food. It is true that the chain stores have been growing very rapidly, and also that there have been several consolidations. Such consolidations, however, do not show any immediate danger of becoming monopolies. The Great Atlantic and Pacific Tea Co. did not enter Philadelphia until the consolidation of five of the large local chains formed the American Stores Co. After this consolidation, however, several hundred stores were opened by the A. & P. Co. It often happens that a concern formed by the consolidation of several companies does less business than the total formerly done by the constituent companies. The retail business is so easy to enter that it is difficult to see how it could be monopolized, as long as there are independent wholesalers. Large profits in any trade or industry furnish the strongest inducement for others to enter.

It was estimated above, that the chain stores do less than 10 per cent of the total retail business of the country. From this it can be seen that any prediction of a chain store monopoly covering the whole country is at least premature. It should be noted, however, that the chain stores control a very much larger percentage of the grocery business in some sections of the country, and that they are growing very rapidly. In one

city the various grocery chains have been estimated to sell some seventy-five per cent of the total groceries. Looking at the problem from a different angle, it is reasonably certain that the anti-trust laws would be called into use if chain-store consolidations should become monopolies. Even granting that a monopoly should be formed for the retailing of foodstuffs, it is certain that if not broken up by law, it would be regulated as a public utility. Food is certainly as essential as transportation, gas, or electricity; and the only reason that food dealers have not already been classed as public utilities, and regulated accordingly, is that competition among them has been so strong that the public has felt it was better protected by competition than it would be by the regulations of a public commission. During the past few years there have been not a few who have advocated price fixing and other regulations for all manufacturers and dealers in foodstuffs, similar to those now governing the operation of the industries that have been already classed as public utilities.

Conclusions as to Chain Stores

The chain stores have grown rapidly, because on the one hand they carry goods in locations convenient to the buyers and sell at low prices; and on the other hand because they offer profits large enough to attract a high grade of managerial ability as well as the capital necessary for their expansion. In the retail distribution of goods, an organization with a large number of small units is more convenient to the consumers than an organization operating a single large unit. It also appears that the numerous small units are easier to supervise, and capable of more efficient operation than the single large unit. The chain stores are growing so rapidly that it is very difficult to make any kind of a prediction as to their future. The coöperative jobbing houses owned by the individual grocers are also growing. If they succeed in selling to the retailers on a basis that will more nearly allow the latter to meet chain-store prices, the growth of the chain grocery stores may be checked. If, on the other hand, the coöperative jobbing houses fail in this, the continued growth of the chain stores may be expected. The chain stores in the future must meet increasing efficiency on the part of the unit stores.

Questions—Chapter XVII

1. Why have the chain stores grown so rapidly in recent years? Why are most chains composed of specialty stores?

2. (a) What are the advantages and limitations of traveling stores? (b) What are near chains? What are advantages of this type of coöperation? Can they enable the unit stores to meet chain-store competition successfully?

3. What is the self-serve method? Under what conditions can it be successfully used? What are its advantages and limitations?

4. Name the advantages and disadvantages of chain stores as compared with unit stores? Which of these advantages are inherent and which are due to superior efficiency? What do you think of the future growth of chain stores?

5. The Jones Grocery Co., located in the downtown section of a city of several hundred thousand people, specializes in high-grade groceries, meats, fruits, and vegetables. A very large part of its sales are made on credit and the goods delivered. The same prices are charged on cash-carry as on credit-delivery sales. There is no further room for growth in the present location and the company considers opening a chain of twelve or fifteen stores in the better-class residential sections and the nearby suburbs. Would such expansion be advisable? What advantages would result from such expansion? What problems would have to be faced? If such stores were opened should they be operated on the present plan? On the cash-carry plan? Or on a two-way or a three-way plan?

6. The Cohen Dry Goods Co. is located in a Western city of 50,000 people. It handles dry goods, notions, and women's ready-to-wear clothing. It has been successful and has the necessary capital for expansion. Would it be preferable to expand the present store into a department store or to establish a chain of small dry-goods stores in the smaller towns within a radius of 200 miles? What problems would be faced in each case?

7. The International Harvester Co. manufactures practically a full line of farm implements. It has its own warehouses and sells to retail dealers in all parts of the country. At the present time, by an agreement with the Department of Justice, its sales are limited to one dealer in each town. It has been suggested that it establish its own retail stores. Would this be advisable? What would be the advantages and disadvantages of such stores?

8. The wholesale grocers are threatened by the growth of the chain stores. It is proposed that the wholesale grocers establish their own retail stores in sections where the chain stores as yet have had little

growth, thus checking the growth of the chain stores and saving themselves. Discuss this proposal.

9. Competition between the grocers in *X*, a town of 5,000 people, is very keen. The stores give practically unlimited credit and delivery service. As yet no chain stores have appeared in the town. Would it be advisable for the Sunbeam Grocery Store to adopt some economy methods before the chain stores make their appearance? Why or why not? If such a change is decided upon, what method would you recommend, cash-carry, three-way, or self-serve?

Chapter XVIII

THE MERCHANTS' EXPENSES AND PROFITS

Importance.—Few subjects are of greater importance to merchants than their expenses and profits. An accurate knowledge of their expenses is necessary to the intelligent pricing of their merchandise. The dealer who does not know his expenses may sell his goods on a basis which does not permit of a fair profit. Such a policy, if continued, will sooner or later lead to failure. Many failures may be traced to just such a policy, or rather the lack of policy. On the other hand, the dealer who is ignorant of his operating expenses may place too high a price on his goods. In this case he will either overcharge the buyer and lay himself open to a charge of "profiteering," or he will lose business to other dealers having lower prices. A knowledge of his cost of doing business will allow him to discontinue lines upon which competition will not allow him to make a fair profit.

A study of his cost of doing business will also warn the merchant when his expenses are too high. A comparison of his costs with those of other dealers handling the same class of goods, will show the dealer when his expenses are dangerously high, and also serve as a stimulus in the reduction of the expense percentage. When information is available a dealer may compare his own percentage of expenses with the average of similar dealers or for the average of a group of the more efficient stores. Many dealers would have been spared failure if they had made such comparisons.

Poor accounting methods of the dealers.—In spite of the importance of accurately knowing their expenses, very few of the smaller dealers have in the past taken any interest in the subject. Most of them have been content at the end of each year to ascertain their net worth.[1]

[1]Net worth is the difference between the concern's assets and liabilities. Capital stock, surplus, undivided profits, and proprietorship accounts are not included as liabilities.

Some have not even taken the trouble to do this. Very few small retailers have in the past kept books from which their expenses and profits could be accurately determined. The Federal Trade Commission estimated that only one out of every twenty-four of the 30,000 retail dealers handling farm implements had accurate records of their business, prior to the time when they had to file income tax returns.[2] Conditions have been almost as bad among other classes of dealers. Within the past few years, however, a greater interest has been taken in accounting, and the percentage of the retail dealers keeping adequate records is much larger than a few years ago. Trade associations, business periodicals, and government agencies have done much to arouse interest in the subject. The necessity of filling out income tax returns, however, has probably done more than anything else to force the small retailers to keep books. When the exemption was lowered in 1917, most of the retail merchants were required to make returns. For this reason many retailers installed accounting systems for the first time in 1918 and 1919.

In fairness to the retailers it must be stated that most of the larger stores and some few of the more efficient smaller stores have for many years kept full and satisfactory records of their business.

Definitions

Gross profit, or gross trading profit, is the difference between the net sales and the cost of the goods sold. Freight and cartage incurred in getting the goods into the store are generally included as a part of the cost of the goods. Trade discounts are deducted from list prices in arriving at the cost of the goods. There is no uniformity in the method of handling cash discounts. Some accountants exclude them from gross profits and add them to net trading profits in ariving at net income. Other accountants deduct them from the invoice prices in arriving at the cost of the goods.

Expense of doing business.—The expense or cost of doing business is made up of the various operating expenses, salaries of employees and of the owners when they are active in the business, rent, delivery expense, advertising expense, depreciа-

[2]Federal Trade Commission: "Causes of the High Prices of Farm Implements," 1920, page 235.

tion, repairs, office supplies, light, heat, power, losses from bad debts, and so forth. There is a lack of uniformity among dealers as to the items included as expense, and a considerable difference of opinion exists among accountants as to whether certain items should be so included.

It is generally agreed that reasonable salaries for the owner or owners active in the business should be included as an operating expense.

Property and license taxes are generally included as expense. Income taxes, however, are by their very nature a distribution of income and cannot properly be included as an operating expense.

Rent actually paid for buildings occupied is a part of expense. Rent on buildings owned by the dealer is sometimes also included as an expense. This was done in several of the studies conducted by the Harvard Bureau of Business Research, for the sake of uniformity. In such cases rents on owned building were included as expenses, but the values of the buildings were excluded from investment. Return on investment, however, is not reported by this Bureau.

Is interest an expense?—There is a great difference of opinion as to the propriety of including interest on the capital investment as an expense. It is argued on the one side, that the business man has no assurance of earning interest on his investment, that unless he conducts his business efficiently he has no right to receive interest, and hence that interest should come out of "profit" and not be included as an operating expense. On the other hand, it is argued that interest should be included as an expense, for the reason that if the installation of labor-saving equipment is contemplated, the interest on the investment must be compared with the saving in wages. It is further argued that interest on borrowed funds must actually be paid, and hence is just as much an expense as the wages of the salesforce; and that interest on the owned investment should be included as an expense, for the reason that no "profit" is made until the invested capital has received a fair rate of interest.

At first thought it might appear that interest actually paid on borrowed funds should be included as an expense, while interest on the dealer's own capital should not be so included. Such a practice, however, renders difficult the comparison of

statements of different dealers, for the reason that the proportion of borrowed capital varies. An illustration will make this clear. *A* has a total investment of $10,000, of which $8,000 is owned and $2,000 borrowed. *B* has an investment of $10,000, but borrows $8,000 and owns only $2,000. At 6 per cent *A* pays $120 interest a year, while *B* pays $480. For the purposes of comparing accounts of different concerns, borrowed and owned capital should be considered together.

If interest on invested capital is included in expenses, it increases expenses and decreases net profit. The net profit shown under this method exists after the owners have deducted interest on their investment at an estimated rate, probably 6 per cent in most cases. Ordinarily, the expenses also include the salaries that the owners estimate themselves to be worth. This means that the *profit* shown exists after the owners have taken out salaries for themselves and interest on their investments. Regardless of the theory involved in this method, it leads to a statement of results that is likely to mislead many people. For example, the Harvard Bureau of Business Research publishes a report of the operation of 322 wholesale grocers during 1920. This report shows an average gross profit of 8.5 per cent, average operating expenses of 9 per cent, and an average net loss of 0.5 per cent. In the operating expenses, however, was included 1.6 per cent of interest. When this interest is excluded from expenses the net loss becomes a net profit of 1.1 per cent. This report does not show the grocer's average investment, but from other data contained in this report and from reports from other sources, it can be estimated that the average investment was approximately 25 or 30 per cent of the average sales. On this basis it is seen that instead of losing money in 1920, the grocers made something like 4 per cent on their invested capital. Most people do not consider that an industry or a concern making 4 per cent on its capital is losing money. This is certainly not the way financial statements are ordinarily interpreted. To include interest on owned and borrowed capital in expenses means that the net profit shown is in addition to the interest on the total investment. This may or may not be sound in theory, but it certainly is not the way most people think of earnings. Until people become accustomed to the method it is misleading to them.

In some of the earlier studies conducted by the Harvard Bureau of Business Research, interest was not included as an expense, but in the recent studies interest on both borrowed funds and owned capital is included as an expense. In the investigations conducted by the Federal Trade Commission, interest on owned capital is excluded from expense. In some investigations interest on short-term loans has been included in expenses, and in others such interest has been excluded, the borrowed funds being considered as a part of the investment.

Net profit.—Net profit, or net trading profit, is the difference between gross profit and the total expense of doing business.

Form of profit and loss, or income, statement.—Profit and loss, or income statements, are drawn up in a variety of forms. The following is a very common one:

Gross sales	$51,000	
Less returns and allowances	1,000	
Net sales		$50,000
Inventory at beginning of period	10,000	
Purchases	35,000	
	$45,000	
Less inventory at end of period	9,000	
Cost of goods sold		36,000
Gross profit		$14,000
Expenses:		
Salaries and wages of employees		
Salaries and wages of officers and owners		
Rent		
Etc.		
Total expenses		10,000
Net profit		$ 4,000
Add other income	$1,500	
Deduct any other expense	500	
Net other income		1,000
Net income		$ 5,000

The different expense items should be grouped in such a way as to show total selling expense, total buying expense, total delivery expense, and so forth, or to show the total expenses for store operation, for use and maintenance of property, and for management.

The above profit and loss statement shows a gross profit of 28 per cent of sales ($14,000 divided by $50,000); total expenses of 20 per cent of sales ($10,000 divided by $50,000) and a net profit of 8 per cent of sales ($4,000 divided by $50,000). The net income includes the results of non-merchandising activities and should be compared with the invested capital rather than with the sales. The net profit can properly be compared with the capital used in the merchandising business. If this capital were $20,000, then 20 per cent net profit was earned on the investment.

Source of information.—Until recently very little accurate information was available showing the expenses and profits of merchants. Such information has been gathered, however, for different classes of dealers during the past few years by various trade associations, publishing concerns, university research bureaus, and government commissions.[3]

The figures used in this chapter are obtained from various sources, the chief sources being the bureaus of business research at Harvard, Nebraska, and Northwestern Universities and the reports of the Federal Trade Commission. These figures are included both for study and for reference. Many of these reports have a limited circulation, and may not be available to some readers.

It should be noted that the stores from which information has been obtained have been as a rule above the average size, although some reports have been received from very small stores. It is usually the larger stores that have books from which satisfactory profit and loss statements can be obtained. This should be borne in mind in studying the following page.

Sales basis for percentages.—Some accountants advocate the use of sales, and others the cost of the goods sold, as the base for computing the percentages of gross profits, operating expenses, and net profits. The use of sales as the basis for computing such percentages, however, has been generally adopted and will be used in this chapter.

Gross Profits

The gross profit realized by an individual merchant depends upon the cost of goods, the mark-up policy, the prices actually

[3]The early work of *System* in gathering and publishing such information is deserving of special mention.

realized, and the fluctuations in the prices of the goods handled.

The mark-up policy.—The mark-up policy varies with the class of goods handled and with the price policy of individual merchants. The percentage of mark-up is ordinarily higher on shoes than on groceries, and higher on millinery than on shoes. The percentage of mark-up is ordinarily higher on fancy than on staple groceries, and larger on high-priced than on medium-priced shoes. The reasons for such differences are obvious. The mark-up policy also varies widely between different merchants. The merchant faced with keen competition, or who does business at a low cost, may use a lower percentage in figuring his selling prices than the merchant with less competition or with higher operating expenses. A merchant in the downtown section of a large city ordinarily will have a higher mark-up than the merchant in a small town, in order to cover the higher operating expenses. The amount and length of credit may also influence the mark-up. Merchants handling articles usually sold on long credit, such as furniture, farm implements or fertilizer, generally have either two sets of prices, or else mark their goods on a credit basis and give liberal discounts for cash. For example, retail furniture stores selling more than three-fourths of their goods on an installment basis had average gross profits of 43.9 per cent in 1920, while those selling less than half of their goods on an installment basis had average gross profits of 36.3 per cent.[4]

Some dealers are more or less confused as to the proper method of figuring mark-up. Stories are told of dealers with operating expenses of 20 per cent who desire to mark their goods for a 25 per cent margin. An article costing $3 is marked to sell for $3.75, which allows a 25 per cent margin on the cost, but only 20 per cent on the selling price. The margin then equals the cost of doing business, and leaves no net profit at all on the transaction. An easy way of figuring

[4]Out of 491 stores reporting to the Federal Trade Commission in 1921, 78 priced their furniture on a cash basis, 21 priced it on a 30, 60, or 90-day basis; 384 priced it on the basis of installment or long-term credit; and 8 carried two prices on the tag. When prices are on a long-term credit basis, it is customary to offer a substantial discount for cash at the time of sale. Thus out of 403 furniture stores, 73 gave less than 10 per cent off for cash, 216 stores gave 10 per cent off, and 114 stores gave from 10 to 25 per cent off. Cash terms are often given for payment in 30, 60, or even 90 days. See summary of report on Household Furniture.

mark-up is to let the selling price equal 100 per cent. The percentage of mark-up desired is then deducted and the balance equals the cost of the merchandise. In this case:

Net sales	= 100 per cent
Desired per cent of gross profit	= 25 " "
Cost of article	= 75 " "

75 per cent = $3; 1 per cent = 4¢
100 per cent = $4, the selling price

The rule, then, is to deduct the desired percentage of gross profit from 100; divide the cost of the goods by the remainder, and multiply the quotient by 100.

Thus the shoe dealer receives a pair of shoes costing $4.50 upon which he desires to make a 40 per cent gross margin. Forty from 100 leaves 60; $4.50 divided by 60 gives $.075, which multiplied by 100 gives the selling price of $7.50. Another dealer may desire a 50 per cent margin. He then marks the shoes to sell for $9. A third dealer may be satisfied with a 25 per cent margin, and accordingly marks the shoes at $6.

Prices realized.—The average percentage of gross profit realized by a merchant depends upon the cost of the goods and the prices actually received when the goods are sold. Goods may be marked for a high percentage of gross profit, but if reductions must be made to sell a large part of them, the average gross profit will be reduced. The merchant marking the shoes at $9 may have average gross profits little or no higher than the merchant marking his shoes at $6, for the reason that he is forced to resort to cut-price sales to move a considerable part of his stock. In 1921 the furniture stores with low mark-ups in a great many cases made just as high profits on investment as the stores with high mark-ups. "A high mark-up is no guaranty of high profit; it often is accompanied by a loss. In other words, mark-up is only one factor."[5] The merchant handling the goods having a high style risk, ordinarily marks them to realize a high percentage of gross profit. The prices of the goods not sold within a reasonable time are reduced until they are sold. This sacrifice of stock, which is due to a change of styles, adds materially to the prices that must be charged

[5]Federal Trade Commission, summary of report on "Household Furniture," 1923.

for the goods when they are first received. The greater the style risk—the fancier the article or the more extreme the style—the larger must be the percentage of mark-up.

Price fluctuations.—Fluctuations in prices are an important factor in determining the average gross profits actually realized by dealers. During a period of rising prices, gross profits are increased; and during a period of falling prices, gross profits are decreased by changes in prices. The value of goods in stock is increased by an increase in prices, and decreased by a fall in prices. The large profits made by many dealers during 1917, 1918 and 1919 were due to the general increase in prices during these years, while the large losses made during 1921 and part of 1920 were due in large part to falling prices.

Few subjects were as vigorously debated during the War as the justification of the dealers selling their goods on the basis of current prices, or replacement costs. The subject cannot be discussed in this chapter, but it cannot be denied that the practice is common. Dealers have their gross profits increased by selling goods on the basis of replacement costs while prices are rising, and have them decreased by selling on this basis while prices are falling.

Variation in gross profits.—Owing to the differences in the cost of goods, in mark-up policies, in prices actually realized, and in the amount of goods in stock during a change in prices, there is a wide variation in the percentages of gross profits realized by different dealers handling the same class of merchandise. The variation in the gross profits realized by the various classes of rural merchants who handled farm implements during 1915 and 1917, is shown by the following figures taken from the books of typical dealers.[6]

[6]Federal Trade Commission: "Causes of High Prices of Farm Implements," page 240. Cash discounts on purchases are not included in gross profits.

The variation in the gross profits realized during some recent years by groups of retail shoe dealers and jewelers was as follows:

Percentage of Gross Profit	*Number of stores*					
	Shoe Stores				*Jewelers*	
	1918	*1919*	*1920*	*1921*	*1920*	*1921*
Under 20	1	1	13	42	6	7
20-24	10	7	36	41	3	8
25-29	13	19	41	77	13	10
30-34	45	47	28	67	17	22
35-39	20	36	10	11	22	25
40 and over	6	20	2	4	58	47
Total number of stores	95	130	130	242	119	119

Percentage of gross profit On sales	*Number of dealers in each group* 1915	1917
Under 10	12	6
10-12	16	20
13-15	28	36
16-18	56	52
19-21	57	60
22-24	38	55
25-27	18	30
28-30	9	28
Over 30	4	9
Total number of dealers	238	297

Average gross profits.—In spite of the difference in the gross profits realized by different merchants handling the same class of goods, average figures are useful. Such averages are also necessary in making many comparisons.

The average gross profits realized by typical groups of various classes of dealers, together with the highest and lowest gross profits reported by any dealer in the group, where such information was available, are shown in the table in footnote 7.[7]

[7]*Class of dealers*	*No. of stores*	*Percentages of Gross Profit* *Year*	*Average or common Sales = 100%*	*Low*	*High*
Department Stores	266	1920	27.8	....	....
" "	301	1921	28.7	7.6	38.5
Retail Furniture	355	1920	42.0	14.5	68.2
" "	355	1921	39.5	....	....
Retail Jewelry	100	1919	40.1	20.1	56.6
" "	190	1921	36.9	3.3*	66.4
Retail Hardware	218	1917-18	26.5	12.8	40.2
" "	155	1919	27.1	10.3	41.1
Retail Farm Implements	...	1915	17.2	....	....
" " "	...	1918	18.1	....	....
Implements and Hardware	...	1915	20.4	....	....
" " "	...	1918	21.4	....	....
General Stores	115	1918	19.0	9.8	31.5
Retail Drugs	187	1919	34.0	20.6	50.1
Retail Shoes:					
Low Priced	...	1911-17	25.7	18.3	40.4
Medium Priced	...	1911-17	26.6	14.2	42.8
High Priced	...	1911-17	34.8	21.3	41.5
All Grades	197	1919	33.1	19.3	45.6
" "	397	1920	27.2	8.6	51.1
" "	407	1921	25.9	17.0	45.0
Wholesale Shoes	32	1918	16.3	....	....
" "	32	1919	18.3	....	....
Novelty 5 and 10 cent chains	...	recent years	30 to 33	....	....
Retail Grocery:					
Country at Large	253	1914-15	21.0	14.6	27.9
" " "	197	1918	16.9	10.5	26.0
" " "	175	1919	17.0	7.0	33.4
Nebraska	27	1920	17.4	9.5	29.3
"	35	1921	21.4	11.3	27.2
Madison, Wis.	37	1919	15.5	....	....

*Loss.

Operating Expenses

Variation in expenses.—There is a great difference in the expenses of dealers handling different classes of merchandise and also of merchants handling the same class of merchandise. The expenses vary with the location of the store, with services rendered to customers and with the efficiency of the individual store.

Wide variation in expenses.—A chain of stores with average operating expenses of 15 per cent, has one store with expenses of only 6 per cent and another with expenses of 28 per cent. The Harvard Bureau of Business Research reports a chain shoe store with expenses of 9.9 per cent and another with expenses of 57.6. This Bureau found grocery stores with expenses ranging from 10.4 to 25.4 per cent; hardware stores with expenses varying from 11.4 to 36.3 per cent; drug stores with expenses as low as 17.9 and as high as 42.9 per cent; and individually owned shoe stores with expenses ranging from 13.6 to 35.6 per cent. These were the extremes, and presumably were reported by stores operating under unusual conditions. A new store without an established trade and with heavy advertising expenses may have a very high percentage of expense. On the other hand an efficiently managed store with a very desirable location may report a very low percentage of expense. Even if these extreme cases be ignored, there is very little uniformity in the operating expenses of merchants handling the same class of goods and operating under similar conditions. Many persons have assumed that there was little difference in the expenses of merchants handling the same class of merchandise (or of the costs of manufacturers producing the similar products), once the exceptional cases were elimi-

Class of dealers	*No. of stores*	*Percentages of Gross Profit*			
		Year	*Average or common Sales = 100%*	*Low*	*High*
New York City:					
Poor Districts	45	1918	15.2	....	....
Middle-class Districts	70	1918	16.2	....	....
Wealthy Districts	13	1918	18.9	....	....
Average All Districts	128	1918	16.4	....	....
Chain Grocery Stores	...	recent years	15 to 20	....	....
Wholesale Grocers	108	1916	12.0	7.7	17.2
" "	145	1918	11.0	6.1	14.9
" "	159	1919	11.1	4.4	18.0
" "	322	1920	8.5	3.0*	14.2
" "	344	1921	9.6	3.9*	18.9
" "	442	1922	11.6	....	....

* Loss.

nated. Nothing could be farther from the truth. The cost of doing business varies widely between different merchants, and the cost of production varies widely between different manufacturers. The Federal Trade Commission has published figures showing the operating expenses of a large number of rural merchants who handle farm implements. The number of such merchants with different percentages of expenses in 1915 and 1917 is shown below.[8] Any person thinking that there is a marked uniformity in the expenses of similar dealers, once the extreme cases are eliminated, should study this table.

Percentages of Total expenses	*Number of dealers* 1915	1917
Under 5	8	9
5- 7	15	24
8-10	39	61
11-13	43	73
14-16	50	66
17-19	46	42
20-22	14	12
23-25	8	5
Over 25	15	5
Total number of dealers	238	297

Reasons for variation in expenses.—City stores generally have higher operating expenses in relation to sales than similar stores in small towns. This is due principally to higher wage scales and higher rents; and to a lesser extent, to higher costs of advertising, and delivery.

The store furnishing a large amount of service generally has higher expenses than a similar store furnishing a small amount of service. It was shown in the last chapter that during 1918, credit sales and delivery of groceries cost the typical New York retail grocers 6.5 per cent. The sending of goods on approval, C. O. D. sales, free rest rooms, and other services add to the dealer's expenses.

The efficiency of any business man depends upon the effectiveness with which he uses labor, land, and capital. Efficiency,

[8]Report on the "Causes of the High Prices of Farm Implements," page 262. The fact that all these merchants did not handle identical classes of goods would account for but a slight part of the variation. Interest is not included as an expense and salaries are not inserted for the owners of concerns who did not pay themselves salaries.

as applied to merchandising, may be measured by the volume of sales per salesperson (or per dollar paid for wages); volume of sales per square foot of space (or per dollar paid for rent); and volume of sales per dollar invested in merchandise, that is, the rate of stock turnover. These factors will be considered in this and the next chapter.

Location.—The expenses of a given class of merchants tend to increase with the size of town in which they are located. This tendency is shown by the average expenses of dealers in towns of different sizes. This is well illustrated by the figures in the appended tables, showing the average operating expenses of retail clothing and hardware stores and of wholesale grocery houses in towns and cities of various sizes.[9]

The expenses of the retail hardware stores show a steady increase with the size of the town, as do also the expenses of the retail clothing stores, except for a slight irregularity in places of between 200,000 and 440,000 inhabitants. The expenses of the wholesale grocers also increase with the size of the cities in which they are located. The advantages of

[9]The figures for retail clothiers are from the Bureau of Business Research of Northwestern University; those for hardware stores are from the National Retail Hardware Association; and those for the wholesale grocers are from the Harvard Bureau of Business Research:

Expenses of Retail Clothing Stores According to Size of Town in which they are Located

Net Sales = 100 Per Cent
Averages for 1914, 1918, and 1919 Combined

Population of town	*Number of stores*	*Average % of expense*
Under 10,000	471	18.0
10,000 to 20,000	141	20.8
20,000 to 40,000	139	21.9
40,000 to 120,000	136	24.5
120,000 to 200,000	44	26.3
200,000 to 440,000	34	24.3
440,000 and over	30	31.5
Total and Average	995	22.7

Expenses of Retail Hardware Stores, According to Size of Town, 1922

Population of town	*Number of stores*	*Average % of expense*
Under 2,500	574	19.3
2,500 to 10,000	237	21.9
10,000 to 25,000	104	22.8
25,000 to 50,000	44	23.8
50,000 to 100,000	30	24.1
Over 100,000	79	25.1
Total and Average	1,068	21.6

Expenses of Wholesale Grocers According to Size of Town in which Located, 1920

Size of town	*Number of stores*	*Average % of expense*
Under 100,000	247	8.8
100,000 to 749,000	50	9.0
750,000 and over	25	11.3
Total and Average	322	9.0

stores in villages and small towns, in the matter of operating expenses, are quite marked in spite of the fact that they often have a slower rate of stock turnover than prevails in the city stores.

Use of labor.—The wages of salespeople make up the largest single item in the expense account of most merchants. This item is from one-fourth to one-half of the total expenses of most classes of retail stores, accounting for approximately one-third of the total expenses of most stores. We have a very definite measure of the efficiency of salespeople—their annual sales. Labor used in management, in the office, in the stock room, in the shipping room, in the buying and delivering of goods is also very important. The wages of such labor average from one-fourth to one-half as much as the wages of the sales force for most classes of retailers except department stores. The non-selling wages of department stores are almost as large as the selling wages. In the case of wholesale grocers, the non-selling wages are considerably larger than the selling wages. It is, however, much harder to measure the efficiency of non-selling labor than of selling labor. The volume of sales per salesperson then gives us a valuable index for measuring the efficiency of the labor employed in different stores.

The volume of sales per salesperson varies with different classes of goods and with prevailing prices. In making comparisons between different years, due allowance should always be made for any changes in the prices of the merchandise handled. The average sales of salespeople in retail grocery stores were $15,800 in 1918. One store with 8 salesmen, however, averaged $43,800 per man. Retail jewelry stores in 1919 reported sales varying from $7,000 to $34,000 per man, with an average of $18,000. Small stores averaged $13,000 per salesman, while large stores (stores with sales of $50,000 or more) averaged $23,000. From 1911 to 1917, retail salesmen selling cheap shoes had average sales of $7,500; while those selling medium-priced shoes had average sales of $10,200. The sales of individual salesmen varied from less than $7,000 to $27,000. Retail hardware salesmen in 1919 sold anywhere from $6,800 to $25,000 worth of goods. The average was $15,000. Retail clothing salesmen had average sales of approximately $11,000 in 1914, while owing to higher

prices the sales averaged approximately $20,000 per man during 1919.[10]

Most retail salespeople and many wholesale salespeople are paid a flat salary regardless of their volume of sales. The better salespeople may receive higher salaries or bonuses, but the increases are not ordinarily in proportion to their sales. For this reason the merchant securing a large average volume of sales from his sales force, generally has a lower selling cost than his competitor with a small average volume per salesperson. Retail hardware stores, which in 1919 had average sales per salesperson of over $18,000, had an average salesforce expense of 4 per cent, while those stores which had average sales of less than $14,000 per salesman had an average salesforce expense of 8 per cent. The relation between volume of sales per salesperson and salesforce expense for wholesale grocers in 1920 is shown by the following figures:

Annual sales per salesperson	*Number concerns*	*Average per cent salesforce expense*
Under $100,000	22	3.5
$100,000—$149,000	80	2.7
$150,000—$199,000	69	2.1
$200,000—$249,000	51	1.7
$250,000 and over	47	1.2

The following table shows the relation between volume of sales per salesperson and selling expenses, total expenses, and net profits for retail clothing stores in 1919:

Relation of Volume of Sales per Salesperson to Operating Expenses and Profits

Retail Clothing Stores having Sales from $40,000 to $80,000 in 1919

Sales per full-time salesperson	*Number of stores*	*Per cent selling exp.*	*Per cent Total Ex.*	*Average number stock turnovers*	*Per cent of estimated net profits (see note 11)*	1914
Under $12,000	15	6.0	20.6	1.4	11.4	4.5
$1,200–$16,000	31	6.3	18.9	1.7	13.1	7.6
16,000– 20,000	22	4.6	17.0	1.8	15.0	8.9
20,000– 24,000	7	4.6	15.9	1.6	16.1	10.3
24,000– 32,000	8	4.3	16.6	1.9	15.4	9.4
32,000 and over	13	3.1	14.3	1.9	17.3	12.3
Averages and totals $16,669	96	5.1	17.7	1.7	14.3	8.1

[10]Figures are reported by the Harvard and Northwestern Bureaus of Business Research.

[11]Figures except percentages of net profit taken from Bureau of Business Research of Northwestern University, Series II, bulletin No. 5. The

How to secure a large volume of sales per salesperson.—It is sometimes difficult to secure a large volume of sales per salesperson for the reason that customers are irregularly distributed, and the dealer tries to have enough salespeople to serve them at the busiest time in order not to lose any business. If sales are heaviest at known periods, as on Saturdays in grocery stores, it is often possible to secure part-time employees for the busy periods. The grocery store often employs school boys and girls for afternoons and Saturdays, while the department store employs women wanting part-time employment for afternoons and Saturdays. Other stores resort to advertising and bargain sales to keep up business on Mondays or in dull seasons so as to utilize their employees and facilities to best advantage. Some stores use their salespeople in the stockroom or in clerical work when business is slack.

Better training in salesmanship will help to increase the average volume of sales per salesman. A good salesman will lose fewer sales, and so spend less time in work that does not add to his sales. Also, a salesman who knows his goods thoroughly can find and sell a customer what he wants in less time than the salesman who is slow in acertaining the buyer's wants, in finding the article, or in making out the sales slip. The stockkeeping system is also important. A good system will save time for the salespeople.

Use of space.—The use of space involves expense. If the building is not owned, rent must be paid. If the building is owned, then taxes, repairs, insurance, depreciation and loss of interest on the investment must be counted. Rent, including estimated rent on owned buildings, will average from 1 to 4 per cent of sales, or from 7 to 14 per cent of total expenses

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percentages of net profit are based on an average gross profit of 32 per cent. The percentage of gross profit is not given in this bulletin but can be estimated from previously published material. The year 1919 was an exceptionally prosperous year, and in normal years the percentage of net profits would be less. This would be partly due to higher percentages of operating expenses caused by lower prices of good than prevailed in 1919. Nevertheless the estimated percentages of net profit show how net profits would be affected by the volume of sales per salesperson, the percentage of gross profit remaining constant.

Estimated percentages of net profit are also shown for 1914 based on a lower percentage of gross profit and higher percentages of operating expenses. As a matter of fact, the volume of sales per salesperson was much less in 1914 than in 1919. The 1914 estimates are given only to illustrate effect of volume of sales per salesperson on profits in a more normal year.

for most classes of retail dealers. For wholesale grocers it averages less than one-half of one per cent of sales or about 4 per cent of total expenses. Heat and light should be added as the expense for these items. It usually varies in proportion to the space used by the dealer.

Space is expensive enough to be used efficiently. This fact is fully appreciated by merchants in the shopping districts of large cities, but is often overlooked by merchants in residential districts or in small towns where the rate per square foot is less. To secure low operating expenses the dealer should pay for no more space than he needs. Too much space is not only expensive but a waste of the salespeople's time, leads to careless stockkeeping, and may curtail sales because prospective customers are driven away by the empty appearance of the room. Well designed fixtures, a good stockkeeping system, and a rapid rate of stock turnover are methods of obtaining an efficient use of space.

Many chain-store organizations, as pointed out in the preceding chapter, devote a great deal of study to the question of rent. They estimate the value of a location and refuse to pay more. They try to rent only the amount of space needed and if more must be taken to secure the location, they often sublet a part of it. The small merchant, however, is often partially helpless in regard to the amount of space he rents. After becoming established in one neighborhood it is a very serious matter for him to move to another. His trade is in this neighborhood or else tied up to the particular location. To move to another part of the city would often mean that he must begin again to develop a group of customers. If he is forced to move, he may find very few empty buildings near his location. His choice is limited, and to secure a place he may take one that is too large, too small, too expensive, or poorly located for his business. If he takes too much space he may try to increase his volume of sales in order to reduce the percentage of cost, or he may be able to divide the building and sublet a part of it. Figures showing the volume of sales per square foot for different types of stores in different locations would be very valuable.

Dealers could very profitably give more attention to the study of location. The number and class of families in the neighborhood; the number of people passing a given location;

the class of these people, whether they are hurrying to or from work or whether they are shopping; whether the location is on the shady or sunny side of the street; whether it is near other stores handling the same line of goods—are all factors worthy of consideration. A location near a passenger terminal where large numbers of commuters pass daily may be an excellent location for a restaurant, a news stand, or a flower store, but it will probably be too expensive for a music store. A dealer handling shopping goods is generally wise to locate near similar stores; while a store handling "convenience" lines may be wise in choosing a location away from similar stores and convenient to the consumers. Some stores, like Woolworth's and the United Cigar Stores, locate in the busiest sections or on the busiest corners, depending upon volume of sales to keep down the percentage cost of rent. Other stores, like those of the Penny chain, choose cheaper locations, depending upon low prices to attract the buyers.

Use of capital.—The arguments for and against including interest on capital as an operating expense were outlined above. From the viewpoint of the individual merchant it makes no difference whether interest is counted as an expense or counted as a division of profits. He has the same amount of money in either case. The efficient use of capital is important in increasing profits whether a charge for its use is included in expense or not. The Harvard Bureau of Business Research includes interest on both borrowed and owned capital as an expense. Its reports show that interest averages from 2 to 3.5 per cent of sales for most classes of retailers. For retail grocers it is 1 per cent or less, for retail jewelers it amounts to more than four per cent, and for wholesale grocers it has in recent years averaged from 1.5 to 1.9 per cent. Interest is equal to from 8 to 17 per cent of the total expenses of most classes of dealers, except retail grocers where it equals only 5 or 6 per cent of their total expenses.

The efficiency with which working capital is used is generally measured by the rate of stock turnover, or in the promptness with which accounts are collected. Stock turnover is considered in the next chapter. At this point we will only indicate that, other things being equal, the quicker the stock turnover the lower the expense. The smaller the stock of merchandise on hand in relation to sales, the smaller will be the amount of

capital needed and the higher the percentage of profit that is obtained.

Effect of changing prices on operating expenses.—The size of the various items making up a dealer's expenses do not ordinarily change as rapidly as the price of the goods handled. Rents are often based on long-term leases, and so often do not change until several years after the price level changes. It is well known that salaries and wages, at least wages of clerical labor, lag behind changes in the prices of goods. The same is also true of money spent for taxes, insurance, electric light, telephone, and telegraph. This generally means that when prices advance, expenses advance more slowly, and hence the percentage of expense declines. This ordinarily means a larger percentage of net profit. On the other hand, when prices decline expenses fall more slowly. This results in an increased percentage of expenses and a lowered percentage of net profit.

Relation between size of store and operating expenses.—Some writers have assumed that large stores have lower operating expenses than small stores. Some base this conclusion on an analogy with manufacturing concerns which up to a certain point are said to operate under the law of decreasing costs. The decreasing costs of manufacturing concerns are based on the use of labor-saving machinery and the division of labor. Stores are not in a position to make much use of labor-saving machinery, and their opportunities to benefit from a division of labor is very limited. The large store can divide labor used for selling, buying, stockkeeping, delivering, accounting, supervising and managing. Any advantages resulting from such a division of labor, however, seem to be counter-balanced by the expense of developing systems and supervising large numbers of employees. Other writers have based their conclusion as to decreasing cost on the fact that some of the dealer's expenses are fixed, and some are variable. Since only the variable expenses will increase with an increase of sales, the larger store is supposed to have a lower percentage of operating expense. This is true, but only within very narrow limits. A dealer rents a store room and incurs certain expenses for rent, heat, light, insurance, and taxes or fees. These expenses do not increase with sales. Hence, as sales increase, the percentage cost of these items decreases. Sales do not, however,

increase very much until more space is needed which increases the fixed charges. Buildings used for retail stores vary in size, but many of them provide storerooms from 18 to 30 feet in width. It appears that a store with sales of from $30,000 to $50,000 very often economically utilizes the space it occupies. From these facts it seems safe to conclude that the law of decreasing costs operates within very narrow limits, if at all, in the case of merchandising concerns. The figures given in footnote 12 indicate that merchandising is an industry of constant costs. More classes of stores show increasing than decreasing percentages of expenses with increasing sales, but this appears to be due to factors other than the volume of business transacted.[12]

[12]Expense figures according to volume of sales.—The following tables show the average operating expenses of different types of stores according to their volume of sales. After studying these figures the reader may object that they are meager and do not supply enough information upon which to base definite conclusions. They show, however, the principal figures that have been tabulated in this way up to the time of writing. It must be remembered that practically all of the figures contained in this chapter have been made available as a result of studies published during the past six years. Prior to that time, accurate data as to the expenses and profits of dealers was very meager. The expense figures are quoted as given in the various reports, interest not being eliminated. Figures are from various sources: Harvard Bureau of Business Research, Northwestern Bureau of Business Research, U. S. Department of Agriculture, University of Wisconsin, National Retail Hardware Association, and Federal Trade Commission.

Independent Retail Meat Markets with Family Trade, 1919

Sales	*Number of stores*	*Per cent expense*
Under $25,000	22	18.1
$25,000–$50,000	57	17.4
50,000–100,000	63	15.3
100,000–200,000	36	15.6
Over $200,000	12	14.5
Total and Average	190	17.0

Retail Food Stores, Madison, Wis., 1919

Sales	*Number of stores*	*Per cent expense*
Under $20,000	9	14.6
$20,000–$50,000	19	10.6
50,000–100,000	5	9.8
100,000 and over	4	13.1
Total and Average	37	11.8

Retail Clothing Stores, Average for 1914, 1918, and 1919

Sales	*Number of stores*	*Per cent expense*
Under $20,000		24.9
$20,000–$40,000		20.8
40,000– 60,000		19.5
60,000– 80,000		21.5
80,000–100,000		21.5
100,000–140,000		22.9
140,000–180,000		22.8
180,000–220,000		22.8
220,000–300,000		25.0
300,000–500,000		25.7
Over 500,000		25.0
Under 40,000	313	21.2
40,000– 80,000	370	20.4
80,000–180,000	227	22.5
Over 180,000	85	24.8
Total and Average	995	22.7

Retail Clothing Stores, 1914

Sales	*Number of stores*	*Per cent expense*
Under $40,000	119	22.6
$40,000– 80,000	76	23.9
80,000–180,000	32	25.9
180,000 and over	6	26.6
Total and Average	233	24.6

Department Stores, 1921

Sales	*Number of stores*	*Per cent expense*
Less than $250,000	81	26.6
$250,000–$499,000	66	27.6
500,000– 999,000	47	28.3
1,000,000–2,499,000	61	28.7
2,500,000 and over	46	28.5
Total and Average	301	27.8

Department Stores, 1922

Sales	*Number of stores*	*Per cent expense*
Less than $250,000	162	26.4
$250,000–$499,000	111	27.5
500,000– 992,000	67	28.3
1,000,000–3,999,999	108	28.4
4,000,000–9,999,000	29	29.0
10,000,000 and over	14	29.5

Wholesale Grocers 1920, 1921, and 1922

	1920	*1921*	*1922*	*1920*	*1921*	*1922*
Under $500,000	35	66	126	9.5	11.1	11.0
$500,000–$999,000	96	132	153	8.9	11.4	11.0
1,000,000–1,999,000	105	84	106	8.6	11.8	11.1
2,000,000 and over	86	62	57	9.3	11.8	11.5
Total and Average	322	344	442	9.0	11.5	11.1

Retail Hardware Stores, 1922

Sales	*Number of stores*	*Per cent expense*
Under $25,000	299	24.6
$25,001–$40,000	253	22.3
40,001– 60,000	235	21.7
60,001–100,000	183	20.8
Over 100,000	98	20.8
Total and Average	1,068	21.6

Retail Hardware Stores, 1919

Sales	*Per cent expense*
Under $30,000	23.9
$30,000 to $60,000	22.1
60,000 and over	18.9

Retail Shoe Stores, 1920 and 1921

	1920	*1921*	*1920*	*1921*
	Number of stores		*Per cent expense*	
Under $30,000	47	77	25.0	28.6
$30,000–$49,000	85	89	24.3	26.3
50,000– 99,000	99	106	23.5	26.1
100,000–249,000	102	91	26.6	29.2
250,000 and over	64	44	29.6	29.1
Total and Average....	397	407	26.0	27.8

Retail Jewelry Stores, 1921 and 1922

	1921	*1922*	*1921*	*1922*
Under $20,000	72	68	47.1	41.4
$20,000-$49,000	72	61	41.6	38.5
50,000-and over	46	42	40.6	40.0
Total and Average....	190	171	43.5	40.0

Retail Shoe Stores, 1922

Sales	*Number of stores*	*Per cent expense*
Under $30,000	101	28.3
$30,000–$49,000	102	27.0
50,000– 99,000	105	27.3
100,000–249,000	67	28.5
250,000 and over	46	31.2
Total and Average	421	28.1

Retail Furniture Stores, 1920
75 to 100 per cent installment business

Investment under $100,000	80	31.5
" $100,000-$300,000	86	34.1
" 300,000- 500,000	22	33.9
" over $500,000	18	33.6
Total and Average	206	33.5

Retail Grocery Stores, 1922

Under $30,000	64	19.9
$30,000-$49,000	101	17.7
50,000- 99,000	160	17.4
100,000-149,000	60	17.7
150,000 and over	58	18.5
Total and Average	443	18.0

The figures show that the expenses of retail clothing, shoes, and grocery stores, department stores, and wholesale grocers increase with the size of the store, after the stores with very small sales are eliminated. The expenses of the furniture stores increase and then decrease. On the other hand, the expenses of retail hardware stores, jewelers, and meat markets decrease as the volume of sales increases. In the case of hardware and jewelry stores, however, no figures are available for large stores, the largest group of jewelry stores having sales of "$50,000 and over," and the largest group of hardware stores having sales of "$100,000 and over." The decrease in the expenses of hardware stores was due to the amount of owners' salaries included in expenses. See figures in footnote 13. In the case of retail meat

It was shown above, that the operating expenses increase with the size of the town in which the stores are located. It is logical to assume that many of the larger stores are located in larger towns. This suggests that expenses increase with the size of the town rather than with the volume of sales.[13] Another explanation of the increase in expenses is that the larger stores have to draw their customers from a wider area and have to spend more on advertising and service—credit, delivery, and so forth; and to offer special inducements, such as a larger or a better assorted stocks and rest rooms.

Purchasing power.—The larger stores can very often buy goods more cheaply than the small stores because of their ability to purchase in large quantities, and because they have more available cash or better credit. It may happen that the

markets, expenses are shown for larger stores, these with sales of "over $200,000," but it should be noted that those markets with sales between $50,000 and $100,000 had lower expenses than those with sales between $100,000 and $200,000.

From these facts the conclusion might be drawn that the point of maximum efficiency of a retail specialty store is reached when the sales are somewhere between $40,000 and $100,000. Figures of the Harvard Bureau and others show that it is possible for stores with sales below $40,000 to operate just as efficiently, measured by expenses, as larger stores. It is difficult, however, for a very small store with a varied stock, such as hardware or drugs, to carry the necessary assortment of goods without tying up too much money in inventory for efficient operation. The merchant with ability to do this is too efficient to long remain in charge of a one-man store. In other words, the efficient store tends to grow so that the very small stores are in the hands of the poorer managers. A merchant showing a great deal of merchandising ability when he is managing a store where he can supervise all details may be incapable, however, of managing a store with a large number of employees.

[13]Only a few studies have been made up to the time of this writing in which the expenses of stores in towns of the same size have been tabulated according to the volume of sales. The most complete study of this kind that has reached the author's attention is the study of retail hardware stores for 1922, made by the National Retail Hardware Association. Upon first sight, these figures do not seem to bear out the idea that expenses increase with the size of the town rather than with the volume of sales. It must be borne in mind, however, that the expenses of hardware stores tend to decrease, rather than increase, with sales, at least up to over $100,000. An examination of the detailed expense items shows that the item that decreases most is the percentage of estimated salaries included for the owners of the stores. When owners' salaries are excluded, there is no clearly-marked tendency for expenses to decrease with volume of sales. In fact, in most groups, the total expenses, excluding officers' salaries, increased with sales after the $40,000 mark was passed. Stated another way, the small stores were unable to pay the owners the salaries set for themselves without having high percentage of expense. The figures follow on the next page.

stores with the largest percentages of operating expenses also have the largest percentages of net profits owing to greater percentages of gross profits. The higher percentages of gross profits are due either to higher selling prices, or a lower cost of merchandise, or to both combined.[14]

Size of Town	Volume of Sales	Sales = 100 per cent: Total Oper. Exp.	Total Oper. Exp. Excl. Owners' Salaries.
Under 2,500	Under $25,000	23.3	13.6
" "	$25,001 to $40,000	20.6	12.9
" "	40,001 to 60,000	19.6	13.7
" "	60,001 to 100,000	17.5	12.5
" "	Over $100,000	14.3	11.1
2,500 to 10,000	Under $25,000	27.1	16.3
" "	$25,001 to $40,000	23.3	14.6
" "	40,001 to 60,000	23.6	16.8
" "	60,001 to 100,000	21.4	16.1
" "	Over $100,000	18.9	15.6
10,000 to 25,000	Under $25,000	30.9	19.5
" "	$25,001 to $40,000	25.3	16.5
" "	40,000 to 60,000	23.3	16.1
" "	60,001 to 100,000	23.4	17.3
" "	Over $100,000	21.9	17.6
Over 100,000	Under $25,000	26.9	15.0
" "	$25,001 to $40,000	26.4	18.5
" "	40,001 to 60,000	25.1	18.0
" "	60,001 to 100,000	24.5	18.6
" "	Over $100,000	24.9	21.0
All sizes	Under $25,000	24.6	12.2
" "	$25,001 to $40,000	22.3	13.6
" "	40,001 to 60,000	21.7	15.2
" "	60,000 to 100,000	20.8	15.3
" "	Over $100,000	20.8	16.9
" "	Average	21.6	15.6

Figures are also available for retail clothing stores in cities of less than 40,000 population, and in cities of more than 40,000 population for 1914, 1918, and 1919. This grouping is not very satisfactory for our purposes, as the variation in the sizes of cities included in each group is too great. The figures for stores in cities of less than 40,000 inhabitants are given below for the three years combined. These figures indicate that average expenses of clothing stores in towns of the same size varied little with the volume of sales.

Expenses of Retail Clothing Stores in Cities of less than 40,000 Population, Classified According to Volume of Sales, 1914, 1918, and, 1919 Combined

Volume of Sales	Per Cent of Total Operating Expenses
Under $40,000	20.4
$40,000 to $80,000	19.2.
80,000 to 180,000	19.9
180,000 and over	20.4

[14]The percentages of gross profits, operating expenses, and net profits following are for retail markets in 1919; department stores in 1921; wholesale grocery stores in 1920, 1921, and 1922; and retail shoe stores in 1920, 1921, and 1922. The figures are for the same groups of stores shown in the preceding pages but interest is excluded from expense.

Average expenses.—In spite of their limitations average expense figures are useful in many ways. A list of average percentages of expenses for various groups of stores is given in the footnote for the convenience of the reader.[15]

Retail Meat Markets with Family Trade, 1919

Sales	*Per cent Expense Excluding Interest*	*Per cent Gross Profit*	*Per cent Net Profit*
Under $25,000	17.5	20.0	2.5
$25,000-$50,000	16.9	19.4	2.5
50,000-100,000	14.9	17.8	2.9
100,000-200,000	15.2	17.7	2.5
Over $200,000	14.1	17.9	3.8

Department Stores, 1921

Under $250,000	23.7	25.8	2.1
$250,000- $499,000	25.2	28.3	3.1
500,000- 999,000	26.4	29.3	2.9
1,000,000-2,499,000	26.7	30.2	3.5
2,500,000 and over	26.6	31.6	5.0

Wholesale Grocers, 1920, 1921, and 1922

	1920	*1921*	*1922*	*1920*	*1921*	*1922*	*1920*	*1921*	*1922*
Under $500,000	8.2	9.1	9.3	8.5	9.0	11.4	0.3	0.1*	2.1
$500,000- $999,000	7.2	9.5	9.3	8.4	9.6	11.5	1.2	0.1	2.2
1,000,000-1,199,000	7.1	9.9	9.4	8.2	9.7	11.7	1.1	0.2*	2.3
2,000,000 and over	7.7	10.0	10.0	8.9	10.0	12.1	1.2	0.0	2.1

* Loss.

Retail Shoe Stores, 1920 and 1921

Under $30,000	21.1	24.5	26.0	22.8	4.9	2.3*
$30,000-$49,000	20.8	23.0	25.4	24.8	4.6	1.8
50,000- 99,000	20.3	23.0	25.2	25.7	4.9	3.5
100,000-249,000	24.1	26.4	28.2	27.7	4.1	4.3
250,000 and over	27.2	26.7	30.3	29.7	3.1	3.0

* Loss.

Retail Grocery Stores, 1922

Under $30,000	18.7	20.3	1.6
$30,000-$49,000	16.3	18.5	2.2
50,000- 99,000	16.3	18.9	2.6
100,000-149,000	16.5	20.0	3.5
150,000 and over	17.5	20.1	2.6

[15]The following table contains many of the figures thus far published, showing the average operating expenses of groups of various classes of dealers.

Average Operating Expenses of Different Types of Stores

Net Sales Equals 100 per cent

Type of Store	*Number of Stores*	*Period*	*Per Cent Selling Expense*	*Per Cent Total Ex. (Excluding int. in most cases)*	*Per Cent Interest*	*No. of Stock Turns Per Year*
General Store (1)	...	1915	...	15.0	1.0	1.5*
General Store (1)	...	1916	...	14.9	1.1	1.5*
General Store (1)	...	1917	...	12.8	1.0	1.7*
General Store (1)	...	1918	...	13.2	0.9	1.9*
General Store (2)	115	1918	6.4	13.3	2.2	2.4

* Turnover of working capital (current assets less current liabilities).

Type of Store	Number of Stores	Period	Per Cent Selling Expense	Per Cent Total Ex. (Excluding int. in most cases)	Per Cent Interest	No. of Stock Turns Per Year
Retail Grocery (2)	253	1914-15	7.0	16.5	0.8	7.0
Retail Grocery (2)	197	1918	5.8	13.3	0.9	7.9
Retail Grocery (2)	175	1919	5.9	13.6	1.0	8.3
Retail Grocery (2)	443	1922	7.8	16.8	1.2	10.1
Madison, Wis. Ret. Grocery (5)	37	1919	...	11.8	...	...
N. Y. City Retail Grocery (6)						
Poor Neighborhoods	45	1918	...	12.2	0.5	11.4
Middle Class Neighborhoods	70	1918	...	13.5	0.6	11.0
Wealthy Neighborhoods	13	1918	...	16.2	0.8	8.6
All Neighborhoods	128	1918	...	13.5	0.6	8.7
Nebraska Retail Grocery:—						
Omaha and Lincoln, Neb. (4)	16	1921	7.6	14.2	0.04	15.7
Rest of State (4)	19	1921	7.9	18.7	0.3	8.1
Retail Hardware (2)	218	1917-18	6.5	17.3	3.0	1.8
Retail Hardware (2)	155	1919	7.0	17.3	3.3	2.1
Retail Hardware (7)	1,068	1922	...	21.0	0.6	2.3
Retail Hdw. & Farm Imp (1)	...	1915	...	16.7	1.0	1.5*
(1)	...	1918	...	13.5	0.8	1.9*
Retail Farm Implements (1)	...	1915	...	14.8	1.1	2.0*
Retail Farm Implements (1)	...	1918	...	11.5	0.9	2.8*
Retail Imp. & Automobile (1)	...	1915	...	9.5	0.3	3.3*
Retail Imp. & Automobile (1)	...	1918	...	9.7	0.4	3.6*
Retail Imp. & Lumber (1)	...	1915	...	13.2	1.2	1.5*
Retail Imp. & Lumber (1)	...	1918	...	11.2	1.5	1.6*
Retail (low-priced) Shoe (2)	...	1911-17	11.1	20.5	4.0	1.6
Retail (medium-priced) Shoe (2)	...	1911-17	10.5	20.3	3.5	1.7
Retail (high-priced) Shoe (2)	...	1911-17	13.3	28.8	2.9	1.5
Chain Shoe Store (2)	17 chains	1909-14	9.9	24.6	2.5	1.7
Retail Shoe Omaha & Lincoln Nebraska (4)	10	1921	13.1	28.5	0.4	2.7
Retail Shoe Nebraska outside Omaha and Lincoln (4)	22	1921	11.3	25.7	1.4	1.3
Ret. Shoe, All Nebraska (4)	32	1921	12.3	26.5	1.0	...
Ret. (Gen. Line) Shoe (1)	53	1914	...	26.3	...	...
Ret. (Gen. Line) Shoe (1)	61	1917	...	26.2	...	...
Retail Shoe (2)	197	1919	10.3	21.1	2.9	1.8
Retail Shoe (2)	397	1920	12.3	23.0	3.0	2.0
Retail Shoe (2)	407	1921	13.4	24.7	3.1	1.9
Retail Shoe (2)	421	1922	13.0	25.0	...	1.7
Retail Drug (2)	187	1919	13.3	24.5	3.1	2.3
Retail Jewelry (2)	251	1919	11.6	32.3	4.6	1.1
Retail Jewelry (2)	119	1920	12.8	28.2	5.8	1.0
Retail Jewelry (2)	190	1921	16.8	36.5	7.0	0.8
Retail Jewelry (2)	171	1922	15.6	34.1	5.9	0.8
Wholesale Shoe (1)	52	1914	...	13.8	...	...
Wholesale Shoe (1)	57	1917	...	13.0	...	...
Wholesale Shoe (1)	32	1918	...	11.7	...	...
Wholesale Shoe (1)	32	1919	...	11.8	...	...
Retail Clothing (3)	233	1914	...	24.6	...	2.3**
Retail Clothing (3)	363	1918	...	23.7	...	2.5**
Retail Clothing (3)	399	1919	...	21.5	...	2.1 3.4**
Retail Clothing (3)	995	Average 1914-18-19	...	22.7	(0.6)	2.9**
Department Store (2)	149	1920	App. 9.5	23.6	2.1	...
Department Store (2)	301	1921	App. 10.5	25.5	2.3	3.0
Wholesale Grocer (2)	108	1916	2.5	8.0	1.5	5.7
Wholesale Grocer (2)	145	1918	2.4	7.6	1.5	5.2
Wholesale Grocer (2)	159	1919	2.4	7.5	1.6	5.2
Wholesale Grocer (2)	322	1920	2.2	7.4	1.6	6.1
Wholesale Grocer (2)	344	1921	2.9	9.6	1.9	5.0
Wholesale Grocer (2)	442	1922	2.9	9.4	1.7	5.7
Car-lot Flour Jobber (1)	5	1916	...	1.7	...	...
Small-lot Flour Jobber (2)	24	1914	...	6.8	...	...
Small-lot Flour Jobber (1)	31	1916	...	5.6	...	...

* Turnover of working capital (current assets less current liabilities).
**So-called "capital turnover" computed by dividing net sales by average inventory.

Net Profits

The net profit, or the net trading profit, is the difference between the gross profit and the total operating expenses. As there is a wide variation in both the gross profits and expenses of different dealers, it is evident that there must be a wide variation in the net profits of similar dealers. The dealers with high expenses, or with exceptionally low gross profits, may, and

Rural Stores Handling Farm Implements

Per cent of net profit	*Number of dealers*	
Sales = 100%	*Year* 1915	1917
Loss over 3	14	4
Loss 3–1	15	2
Profit:		
1– 3	56	50
4– 6	60	80
7– 9	34	69
10–12	29	47
13–15	10	23
Over 15	3	17
Total number of stores	221	292

Retail Shoe Stores

	Year 1918	1919
Loss	5	3
Profit under 3	8	10
3– 5	23	15
6– 8	17	19
9–11	21	20
12–14	13	15
15 and over	8	13
Total number of stores	95	95

Type of Store	*Number of Stores*	*Period*	*Per Cent Selling Expense*	*Per Cent Total Ex. (Excluding int. in most cases)*	*Per Cent Interest*	*No. of Stock Turns Per Year*
Retail Furniture (1)	355	1920	...	27.8	...	2.4
Retail Furniture (1)	355	1921	...	31.9	...	1.7
Fur. Dept. of Dept. Stores (1)	31	1920	...	28.6	...	3.0
Fur. Dept. of Dept. Stores (1)	31	1921	...	30.4	...	2.4

(1) Reports of Federal Trade Commission. Interest reported is interest on borrowed funds (less than one year) only. Interest on borrowed funds in some cases included in expenses and not reported separately.

(2) Harvard Bureau of Business Research. Interest reported is interest on both borrowed funds and owned capital. Interest is here excluded from expense.

(3) Northwestern University Bureau of Business Research. Interest on borrowed funds included in expense and shown separately only for 1914, 1918 and 1919 combined. Turnover figures are not based on same number of stores as the percentage of expense.

(4) Extension Division, University of Nebraska.

(5) University of Wisconsin Agricultural Experiment Station, bulletin 324.

(6) New York State Department Farms and Markets, circular 240.

(7) National Retail Hardware Association.

in fact often do have losses in place of profits. This explains why some dealers become prosperous while others fail.

Variation in net profits.—The figures on page 351 show the variation of the net profits of typical groups of retail farm-implement and shoe dealers during recent years.[16]

Average net profits.—Average net profits are important for certain purposes. Figures showing net profits for typical groups of various kinds of stores are given below:

Average Net Profits[17]

Type of store	*Number of stores*	*Period*	*Per cent net profit Sales = 100%*	*Per cent interest*
Wholesale grocers	108	1916	3.9	1.5
" "	145	1918	3.3	1.5
" "	159	1919	3.5	1.6
" "	322	1920	1.1	1.6
" "	344	1921	0.0	1.9
" "	442	1922	2.2	1.7
Retail grocers	253	1914-15	5.3	0.8
" "	197	1918	3.2	0.9
" "	175	1919	3.0	1.0
New York Retail Grocers				
Poor neighborhoods	45	1918	3.0	0.5
Middle class neighborhoods	70	1918	2.7	0.6
Wealthy neighborhoods	13	1918	2.7	0.8
All neighborhoods	128	1918	2.9	0.6
Omaha and Lincoln, Neb. retail grocers	16	1921	6.4	0.04
Nebraska outside Omaha & Lincoln retail grocers	19	1921	1.8	0.3
Retail hardware	218	1917-18	9.0	3.0
" "	155	1919	9.1	3.3
Retail shoes—low-priced	...	1911-17	5.2	4.0
" " medium-priced	...	"	6.4	3.5
" " high-priced	...	"	6.0	2.9
" " dept. stores	...	"	4.6	2.2
" " chain stores—17 chains	184	"	3.8	2.5
" "	197	1919	11.7	2.9
" "	397	1920	4.2	3.0
Retail Drugs	187	1919	9.4	3.1
Retail Jewelry	251	1919	12.2	4.6
" "	119	1920	9.8	5.8
" "	119	1921	Loss 0.1	6.6
Department stores	149	1920	3.9	2.1
" "	301	1921	3.2	2.3

[16]Figures for rural stores reported by the Federal Trade Commission and for shoe stores reported by the Harvard Bureau of Business Research.

[17]Interest is excluded from expenses, which means that it is to be taken care of out of net profits. Interest is a return on capital, while these percentages are based on sales.

Net income.—Many accountants exclude cash discounts taken on purchases, and interest received on notes or accounts due from customers from gross profit. This is done on the theory that these are financial, or banking, and not merchandising transactions. When these items are excluded from gross profit they must be added to net profit in arriving at net income. When this accounting method is followed, net income, rather than net profit, is the significant figure.[18]

	Sales = 100 per cent	
Year	*Per Cent Net Trading Profit*	*Per cent Net Income*
1915	3.5	6.2
1916	4.8	7.4
1917	6.0	8.5
1918	7.3	9.7

Return on investment.—The dealer is interested primarily in the percentage of net return profit or income, which he realizes on the capital invested in the business, or in the amount of money which he realizes for his personal services. The student and the public are also interested in the returns made on the capital invested, or for the time spent, in order to form an opinion as to whether the dealers have been overpaid or underpaid for the services rendered to society. The young man in choosing a business for himself is also interested in these figures. Unfortunately, for our purposes, the dealers submitting reports to the university bureaus of business research have so far refused to allow such information to be published. We are limited therefore largely to the meager facts available in government reports and financial manuals. The following figures, except those for retail hardware stores, are from the reports of the Federal Trade Commission. (See also figures in Chapter XIII.) Most of these figures are for 1917, 1918, 1919, 1920 and 1921. It should be remembered that 1917, 1918 and 1919 were unusually profitable years for most kinds of business. On the other hand, 1921 was a very poor year.

[18]This method was used by the Federal Trade Commission in compiling the figures for the rural (village and small town) dealers handling farm implements. With the exclusive implement dealers, "other income," composed largely of cash discounts on purchases and interest collected from debtors, averaged 3.8 per cent in 1915, while the net profit excluding these items amounted to only 2.5 per cent. The following figures show the average percentages of net trading profit (excluding cash discounts and interest received) and net income (including these items) for the rural dealers handling farm implements. Federal Trade Commission: "Causes of High Prices of Farm Implements." This report contains detailed figures of expenses, profits, and income for different classes of rural dealers.

Type of store	*Number of stores*	*Year*	*Average percentage of net return on investment*
Retail furniture store.....	355	1920	22
" " "	355	1921	8.6
Wholesale furniture store....	22	1920	32.7
" " "	22	1921	4.2
Wholesale shoe store.....	32	1918	22
" " "	32	1919	31
Retail shoe store.....	46	1918	25
" " "	46	1919	32
Retail farm implement.....	....	1915	9.2
" " "	....	1917	14.5
Retail hardware and implement	....	1915	7.6
" " " "	....	1917	13.2
Retail automobile & implement	....	1915	13.3
" " "	....	1917	18.9
Retail lumber & implement....	....	1915	10.1
" " "	....	1917	14.7
Retail general stores.....	....	1915	10.5
" " "	....	1917	13.8
Retail hardware stores[19].....	1,068	1922	5.2

Variation in return on capital.—There is a great variation in the percentages of net profit, or income, made by different dealers on their capital. The number of village and small-town dealers, handling farm implements, who made different percentages of net income on invested capital during 1916 and 1917 is shown below.[20]

Percentage of net income, or net loss, on total investment	*Number of dealers* 1915	1917
Loss	7	2
Profit: under 2	17	5
3– 5	28	8
6– 8	32	19
9–11	37	52
12–14	25	44
15–17	17	40
18–20	18	26
21–23	10	23
24–26	6	16
Over 26	12	38
Total number of dealers	209	273
Average per cent net income.....	9.0	14.7

[19]National Retail Hardware Association: "Salaries for Owners and Interest on Borrowed Funds Included in Expense."

[20]Federal Trade Commission: "Causes of High Prices of Farm Implements." Borrowed funds are included in investment but interest paid for the use of these funds is excluded from expenses.

In 1915, which was chosen as a normal year, approximately one dealer out of thirty-three suffered a loss; one dealer out of five earned less than 6 per cent on the capital used in the business; one dealer out of three earned from 6 to 11 per cent on investment; and two dealers out of five earned over 12 per cent on the money used in the business. The dealers were much more prosperous in 1917 but 1915 was taken as a normal year.

Net income earned on own investment.—Many people think of net income in relation to the investment actually owned by the merchants. From the standpoint of the individual merchant it is more important to know what he earned on his own investment than what he earned on all the funds used in the business. Except in cases of necessity, a merchant will not borrow money unless he believes that he can use it in such a way that he will have a margin left for himself after the payment of interest. We would, therefore, expect the average percentage of net income on the dealer's own investment to be higher than the average percentage on the total investment. The average percentages of net income realized by the rural dealers on total investment and on owned investment were as follows:[21]

Year	*Percentages of Net Income on Total Investment. Interest excluded from Expense*	*Percentages of Net Income on Owned Investment. Interest included as an Expense*
1915	9.0	9.5
1916	11.2	12.0
1917	14.7	16.5
1918	17.7	20.5

Return for the personal services of dealers.—The Federal Trade Commission has also reported the average net return for the personal services of the rural dealers in 1915, 1916, 1917 and 1918. Similarly, the National Retail Hardware Association has compiled figures for retail hardware stores in 1922. The return for the personal services of the dealers was arrived at by including wages of employees, interest on borrowed funds, and estimated interest on the owned investment as expenses, and excluding salaries of the owners of

[21]Federal Trade Commission: "Causes of the High Prices of Farm Implements," pages 270-275.

the various stores from expenses. There is a difference of opinion as to what rate of interest should be allowed on the owned investment, owing to the difficulty of estimating the risk to which the capital is subjected. For this reason the average net return for each class of dealer was shown, after allowing 7 per cent interest on the owned investment and also after allowing 10 per cent interest on the owned investment.

	Average Return per store after allowing 7% interest on investment	*Average Return per store after allowing 10% interest on investment*
Rural Stores		
1915	$3,307	$2,244
1916	4,320	3,206
1917	6,767	5,561
1918	9,305	7,974
Hardware Stores		
1922	2,653	1,867

The figures shown are the average returns for the personal services of the owners of each concern, but are not the average return per man, for the reason that some concerns have more than one owner, or officer, active in the business. The average return per man would be somewhat below the above figures. The average number of owners in 1068 hardware stores of all sizes in 1922 was 1.58 per store. If we estimate that there was an average of one and one-half owners active in each rural implement store, then in 1915 the average return per man was slightly over $2000 after paying 7 per cent on the owned investment, and about $1500 after earning 10 per cent on owned investment. In the rural sections where the stores were located these would probably have been considered good salaries in this year for the type of men operating these stores. The returns were notably higher in the later years, but 1915 is taken as the normal year. The average return for each hardware-store owner in 1922, after allowing 7 per cent interest on investment, was $1,679; and after allowing 10 per cent on investment, it was $1,182.

The Failure Rate Among Merchants

Several prominent merchants have said that of every 100 people who enter the mercantile business only 2 to 4 succeed, and that the others either vegetate or fail.

System's studies.—A study of the business failures in Waterloo, Iowa, covering a period of 30 years, made by the pub-

lishers of *System,* showed that 45 per cent of the retail dealers went out of business within five years after entering business. A similar study in Grand Rapids, Michigan, showed that a retail merchant has less than five chances out of ten of staying in business ten years, and less than three chances out of ten of staying in business fifteen years. The studies in these two cities showed that the rate of failures was as high among manufacturers and almost as high among wholesalers as among retailers.

A study was made in another city for a period of 30 years. It covered 1327 factories, 492 wholesalers, and 2550 retailers. The following are typical of the facts developed in this city. The history of 61 business concerns—20 factories, 6 wholesalers, and 35 retailers, in business in 1891, was ascertained. Sixty per cent of the factories, 16.6 per cent of the wholesalers, and 40 per cent of the retailers failed during the five years from 1891 to 1896. During the next five years 15 per cent more of the factories, 16.6 per cent more of the wholesalers and 20 per cent more of the retailers had failed. At the end of 15 years, 85 per cent of the factories, 66.6 per cent of the wholesalers, and 69 per cent of the retailers in business in 1891 had failed. At the end of 25 years in 1916 only 7 of the 61 original concerns, 1 factory and six retailers, were still in business. The length of life of 1615 retailers in ten lines who had quit business, was determined. Of these 1615 retail stores, 72 per cent went out of business during the first five years, but this period apparently included the panic of 1893; 17 per cent quit during the second five-year period; 7 per cent during the third five-year period; 3 per cent quit after having been in business between 15 and 20 years; and 1 per cent quit after having been in business from 20 to 25 years. Of 20 clothing stores in business in 1891, 45 per cent died within five years; 55 per cent within 10 years, 60 per cent within 25 years, and only 8 of these stores, or 40 per cent, were still in business at the end of 25 years.[22]

Nystrom's Oshkosh study.—Nystrom made a study of the changes among retail dealers in Oshkosh, Wis., from 1890 to 1912. He included dealers handling groceries, shoes, dry

[22]See: "What Can We Do About the Business Death Rate?" *System,* January, 1916; "Will You Have a Business in 1924?" *System,* January, 1917; and "When Will My Business Die?" *System,* October, 1917.

goods, men's clothing, hardware, furniture and drugs. There were 145 such merchants in Oshkosh in 1890, and 172 in 1912. Of the 145 dealers in business in 1890, only 18 were in business in 1912. Of the 201 who entered business between 1890 and 1900, only 39 were in business in 1912. In all, 526 people had embarked in the retail business during these 22 years, out of which number 354 had dropped out prior to 1912. The causes of discontinuing business were determined for 201 of these 354 people. These causes were listed as follows: Death, 24; ill health, 1; bankruptcies handled by the courts, 6; sold out probably at loss, 27; sold out at gain, 14; retired with competences, 5; failures or fizzles, 124. Of the 153 others who dropped out it is concluded that most of them just quietly slipped out of sight. If they had caused serious losses to others, or if they had been very successful, they probably would have been remembered. It is pointed out that Oshkosh is a typical middle-western city. Similar studies were made in other middle-western towns and similar results were obtained. Nystrom, therefore, believed that the conditions found in Oshkosh were typical of conditions throughout the middle West.

From these facts Nystrom concludes that people are constantly entering the retail business with small amounts of capital saved from other occupations, which is consumed or lost in a few years. For this reason, he believes that the retail business is partly parasitic, as more capital seems to flow into retailing from other sources, than flows out of it into other industries. "Most failures in the retail business are simply closed out in a quiet, informal way, and the public never learns just what the financial situation was. A new man with new capital seems to be ready to slip in and try his fortune as soon as the old dealer steps out."[23] In many cases the creditors lose nothing, the dealers quit when they have lost all or part of their capital. Very few of such cases reach the bankruptcy courts. Dun's reports from 1911 to 1920 show failures varying from 0.38 per cent of the firms listed for the year 1919, to 1.32 per cent of the firms listed in 1915. In nearly all years the number is less than 1 per cent. Yet they count as failures only those cases where the creditors lose something.

[23]Nystrom, Paul H.: "The Economics of Retailing," ch. 18.

The names taken off their lists annually, however, amount to 20 per cent of the total number of names listed.[24]

What is failure?—A great deal of the apparent conflict of statements can be avoided if we stop to define what we mean by failure. According to the mercantile agencies the average business life is less than five years. Yet, according to the same agencies, less than one per cent of the business concerns "fail" annually in a way that creditors lose. What happens to the great number of concerns that quit without causing a loss to others? Many of them "fail" only in the sense that they do not make satisfactory profits. When a man is unsuccessful in making what he considers a satisfactory profit, he is very likely to try some other business or to work for someone else. Life is short and the grass always looks greener in other pastures. Many of the changes of names by the mercantile agencies are due, apparently, to a re-organization of partnerships to allow one member to withdraw or to admit a new member. If you do not believe this, take a half dozen of the older partnerships in your community, and find out, first, how often the partnership has changed to admit a new member or to allow an old member to retire, and, second how often the firm name has changed.

The American people are constantly changing from place to place and from business to business. Young men want to get into business, old men want to get out of business, traveling men marry and want to "get off the road," farmers move to town and open a store to make an "easy living." Carpenters, policemen, and plumbers who want "easier jobs" do the same thing. These changes as well as those due to old age, sickness, and death contribute to the short mercantile life. People no longer follow the same businesses all of their lives and train their children to follow in their tracks.

The death or "failure" rate was shown by *System's* studies, referred to above, to be as high for manufacturers as for retailers; and to be almost as high for wholesalers as for retailers. Most retail stores are too small to make their owners wealthy, no matter how successfully they are operated. Most

[24]In 1921, for example, 445,833 names were obliterated and 530,590 names added to R. G. Dun & Co.'s general reference book. In addition, the names or ratings of 547,524 concerns were changed. This was an average of 5,493 changes per day. The 1922 reference book contained 2,179,540 names.

dealers make a living wage, or profit, while in business. When they retire, some sell out for a profit and some sell out for a loss. The cost studies conducted during recent years by the Federal Government proved conclusively, if any proof were needed, that there is a great variation in the profits of all classes of business enterprises. Efficiency, natural advantages, and opportunities make some wealthy; while the lack of these causes others to fail. The great majority of both business and professional men come in between, they neither become wealthy nor fail to make a living.

Causes of failure.—The principal causes of failure are: lack of capital, incompetence, unwise extension of credit, failure to collect accounts, overbuying, bad location, dead lines, slow turnover, inability to meet competition, poor accounting methods, poor advertising, dishonesty, personal extravagance, neglect of business, failure of others, speculation, and loss by storm, fire and so forth. Incompetence or inefficiency, and lack of capital are said to cause something like two-thirds of the failures among retailers. Fifty per cent of the drygoods-store failures in Waterloo, Iowa, were said by *System* to be due to overbuying, and 30 per cent more to failure in making collections. Among the cigar stores in that city, 25 per cent of the failures were said to be due to poor locations. Poor salesmanship, unwise extension of credits, overbuying, poor collections, poor accounting methods, slow turnover, poor locations, poor advertising and dead lines are all the result of inefficiency or incompetence, laziness, ignorance, or inexperience. Looked at in this way, it is probably safe to say that more than three-fourths of the failures of merchants are due to inefficiency or incompetence, and lack of capital.

Efficiency is relative. In order to stay in business, a dealer need only be as efficient as his competitors. Usually, inability to meet competition simply means that the dealer is less efficient than his competitors. In meeting chain-store competition, however, the dealer may be equal to the chain store in merchandising ability, but still be handicapped because of his small purchasing power.

The remedy.—If three-fourths of the failures are due to inefficiency and a lack of capital, the remedy is to prevent those lacking a minimum of efficiency and capital from entering business. The author believes that persons desiring to

operate a store should be required to pass a simple examination before obtaining a dealer's license. This examination should cover the elementary principles of merchandising and bookkeeping. The examination should prove whether the applicant knows how to figure mark-up; that he understands operating expenses, net profits, stock turnover, the nature and importance of cash discounts, and stock turnover; and that he is capable of keeping a simple set of books. Many cities require plumbers and electricians to know the elements of their trades before obtaining a license. It is certainly not too much to put a merchant on as high a plane as an artisan. Such tests would be to the advantage of those refused licenses, as it would prevent them entering a business where the chances are against their success.

A requirement that the applicant show that he has enough available capital to start the business and offer at least a reasonable chance of success, is harder to justify, since so many successful business men started on a "shoestring." If, however, applicants were required to have a reasonable amount of capital for the size of the intended business it would reduce the failure rate and prevent many losses to the dealers. The examinations proposed above would very likely deter many with insufficient capital from entering business. A third suggestion is that the applicant be required to show that the community where he desires to operate is not already oversupplied with similar stores. This suggestion is opposed to our ideas of "equal opportunities to all," and suggests the danger of "favoritism." The idea is, however, not entirely new as it has been used in some cities, and is involved in some city zoning plans, by which a public need must be shown in securing permission to open stores on streets not previously set aside for business purposes.

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Questions—Chapter XVIII

1. The books of the Brown Mercantile Co. show the following figures for 1923: Inventory January 1, $50,000; purchases, $100,000; inventory December 31, $40,000; sales $140,000; operating expenses $24,000. Compute the percentages of gross profit, operating expenses, and net profit.

2. An item costs the merchant 42 cents. What is its selling price, to realize 30 per cent gross profit?

3. Explain the variations in the percentages of gross profit realized by different dealers operating similar stores.

4. What influence does the size of town where a business is located have on dealers' expenses? Discuss.

5. What influence does size (volume of sales) have on dealer's expenses? Discuss.

6. (a) The greatest cause of variation in the expenses of similar dealers is said to be differences in operating efficiency. Explain this statement.

(b) Name and explain three tests for measuring merchandising efficiency.

7. How do you account for the frequent changes in the ownership of stores? Do most dealers quitting business fail?

8. Is this high rate of turnover due to too keen competition or to

inefficiency? Is it beneficial to the public? State why or why not?

9. What are the principal causes of failures among dealers? How can the number of failures be reduced?

10. Draw up a set of questions which you think would make a fair examination for applicants for licenses to operate retail stores. To make the question more specific you may choose a particular type of store, as retail grocery, or retail hardware.

Chapter XIX

PURCHASING, STOCKKEEPING, AND STOCK TURNOVER

Success in business depends upon the efficient use of land, labor and capital. This chapter deals with the use of capital employed in carrying stocks of goods, and tries to show how it can be used more efficiently. Business consists largely in the purchase of goods or services for resale in the same or changed forms. In buying, the object is to buy the goods in such a way as to reduce the "out of stock" reports to a minimum, and to keep the amount of stock on hand as small as practicable. The manufacturer purchases or produces raw materials, changes the form of these materials and sells the completed products. The less capital he has tied up in raw materials, work in process, and finished products, without shutting down his plant or losing business because of inability to make prompt deliveries, the less is his expense for warehouse space, and the less capital is needed to operate the business. The merchant buys goods for resale in the same form. His business is to sell goods and not to speculate. He can make profits only by the sale of goods. Some merchants, especially wholesalers, carry on a certain amount of speculative business by buying goods in excess of immediate needs in the expectation of higher prices. It is impossible for merchants to entirely avoid some speculative profits or losses, as the market prices of goods often change while the goods are in stock. It should be the object of most merchants, however, to reduce the speculative element to a minimum.[1]

Object of purchasing.—The object of purchasing is to tie up just as little capital as possible in stocks, and yet never be out of the goods desired by the customers; in other words, always to have all of the necessary articles in stock, and yet

[1]We say "most" merchants for the reason that it is necessary for some merchants to carry a part of the seasonably produced farm products for considerable periods in order to equalize consumption throughout the year.

never to be overstocked in any of them. This is perhaps an ideal that is impossible of attainment in actual practice, and yet an ideal that should always be kept in mind and striven for.

Qualifications for successful buying.—From what has been said it is evident that wise buying is no easy matter. The qualifications of a successful buyer may be summarized as follows: a knowledge of the kinds and quantities of goods needed, a good judgment as to quality, a knowledge of sources of supply, familiarity with actual prevailing prices, a good judgment of the future trend of prices, and bargaining ability.

Manufacturers often manufacture goods 6 to 12 months before they are bought by the ultimate consumers. Wholesalers frequently place orders for goods from 3 to 9 months before they are delivered. Many retailers also buy large stocks considerably in advance of delivery. In order that goods may be manufactured or purchased in the proper quantities, it is necessary that the future demands be forecast with some degree of accuracy. For the purpose of forecasting demand, goods may be divided into staples, which are in relatively steady demand over a long period of years; style goods, the demand for which varies widely from year to year; and seasonal goods, which are sold principally at certain times of the year. Seasonal goods may be staples, in that their demand remains fairly constant during many seasons; or style goods, in that the style demanded one season may be different from that demanded the next season.

Sales records.—Sales records will often serve as a basis for future orders. In case sales increase, or decrease, year by year this fact must be considered in buying. Sales must, of course, be considered in the number of units and not in dollars. Sales records will indicate the percentage of a stock that should be of a given size or price. Records as to sizes are valuable to manufacturers and dealers in shoes, hats, clothing, and similar lines. The records kept by the Regal Shoe Co., for example, show the percentages of people with differently sized feet. A stock of shoes should contain the proper percentages of each size. A dealer, in buying, should know the exact number of pairs of each size required. Perhaps the assortment commonly supplied by the factories does not exactly suit his needs. The percentages worked out by the Regal Co. show that 102 sizes of men's shoes are needed, but that 62.3

per cent of shoes sold are of 18 sizes, that 85.4 per cent are of 35 sizes, and the other 67 sizes account for only 14.6 per cent of the sales. A balanced stock of men's shoes, for instance, should contain the following percentages of No. 8 shoes; AA, 0.45; A, 1.78; B, 3.41; C, 4.98; D, 4.04; E, 0.80; EE, 0.01; and total of various widths 15.47. E. J. Bliss, president of this company says: "Out of every 100 men who start into the retail shoe business, 91 per cent go broke, and of the 91 per cent who go broke more than half of them are busted on end sizes."[2]

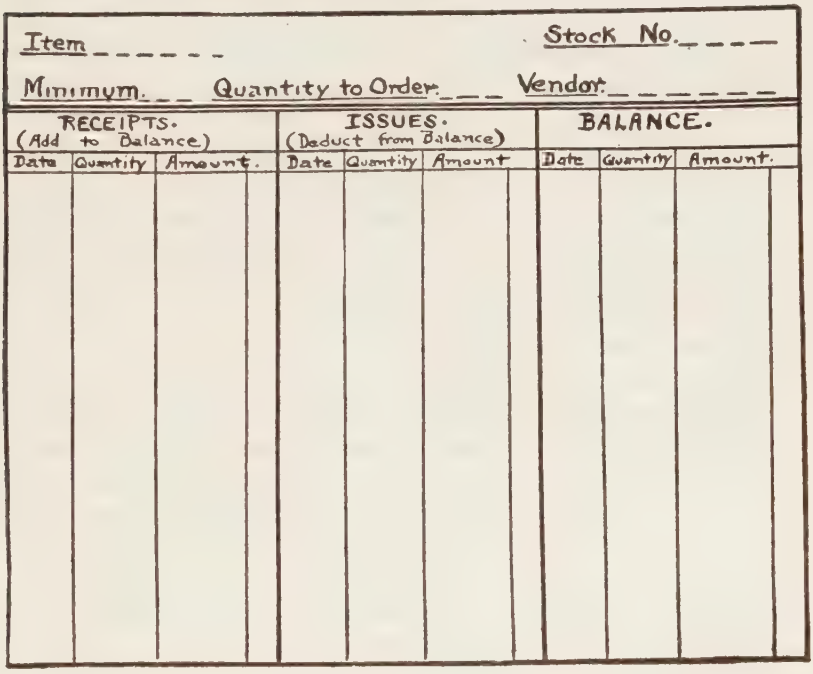
Sales records will not tell what styles should be bought, but they will help to determine the quantities that should be purchased. They will also indicate the percentages of each stock that should fall in each price group. To illustrate, the styles of women's dresses change from season to season, but sales records will show that the demand for $25 dresses will be fairly constant. The buyer can then use his records to guide him in determining the quantities of variously priced dresses required.

Out-of-stock orders.—When goods are out of stock, either business is lost or extra expense is involved in filling orders. The wholesaler can handle orders for goods out of stock in several ways. He can go out and buy from other wholesalers. This is a very common method, but generally little or no profit is made on such transactions. He can substitute other goods for those ordered. This is a practice to be followed only when the merchant is sure that the goods substituted will be entirely satisfactory to the buyer. He can have the goods shipped direct to the buyer from the manufacturer by mail or express. He can notify the buyer that the goods are out of stock and that they will be shipped as soon as received. This should be done only in case the merchant believes that the buyer could not obtain the goods more quickly from another source. None of these methods should be used if the buyer will be injured thereby. They all involve a loss of profit or extra expense, and show the importance of always having goods in stock.

Stockkeeping.—Most merchants and manufacturers buy many staple goods more or less regularly and try to have the goods arrive as needed. In order to know when to order goods the buyer should know the quantity of each article in

[2] *System*, November, 1923.

stock and the rate at which the stock is being moved. This involves an adequate stockkeeping system. The highly specialized or the small dealer may be in close enough touch with his stock to have this information constantly in mind, without the necessity of any formal stockkeeping system. For most dealers and manufacturers, however, some stockkeeping system is highly desirable. Such a system should serve as an in-



Item _____ Stock No. ____

Minimum. ___ Quantity to Order. ___ Vendor. _____

RECEIPTS. (Add to Balance)			ISSUES. (Deduct from Balance)			BALANCE.		
Date	Quantity	Amount.	Date	Quantity	Amount	Date	Quantity	Amount.

telligent guide in buying and also enable the value of the goods on hand to be ascertained at any time quickly and cheaply.

The perpetual inventory.—The perpetual inventory is one of the methods that has been devised to meet these requirements. Under this system the buyer can tell at any time the quantity of each article in stock. Every time goods are received or sold, the proper entry is made and the quantity on hand carried forward. For example, the record of a certain size of steel trap may show the quantity on hand as 24 dozen. An order is received for 4 dozen and the balance in stock, 20 dozen, is entered in the column showing the balance on hand. The buyer can at any time tell by a glance at this column the

quantity on hand. The time required to receive a shipment of goods from the factory or wholesaler can be approximated for each article. The number likely to be sold during this length of time should constitute the minimum quantity that it is safe to carry in stock before placing an order for more goods. This minimum number should be entered on the stock record, and as soon as the balance on hand is reduced to this figure an order should be placed at once for more goods. The size of the order will depend upon the time necessary to obtain the goods, the rapidity of the sales and the quantity discounts obtainable. When the proper size for the purchase is determined it can also be entered on the stock record. The placing of orders then becomes largely a clerical matter. As soon as the minimum quantity is reached, an order is at once placed for the quantity shown as the amount to be purchased. The stock clerks can furnish this information daily to the buyer who places the necessary orders. This method of buying is applicable only to staple articles in regular demand. It will be shown later that the demand for many articles is very irregular.

Advantages of nearby source of supply.—Other conditions being equal, the buyer should obtain his goods from the nearest source, for the reason that goods can be obtained more quickly and, hence, can be bought in smaller quantities. This ties up less capital in stocks of goods on hand. This may be of such importance that it is good policy to buy from the seller located in the same city even if the goods could be obtained at slightly lower prices from a more distant source.

Perpetual inventory not always practical.—The advantages of the perpetual inventory were outlined above. In spite of its advantages the necessary clerical labor is often so large as to render its use impractical. This is true with many retail stores. The perpetual inventory may be practical for retail stores dealing in articles sold in fairly large units, such as suits, dresses, hats, shoes, furniture and such like. A carbon copy of each sales slip goes to the proper clerk who deducts the quantity sold and carries the quantity on hand forward. With such goods the clerical expense may not be prohibitive. In handling such large articles it may be cheaper, however, to count the goods on hand frequently, than to keep the perpetual inventory. There are disadvantages, nevertheless in

this method, for if the count is neglected or made carelessly, the merchant may run out of certain styles or sizes before he knows it. A perpetual inventory may also be practical for the dealers carrying open and duplicate (or reserve and show) stocks. For example, the cigar store can make an entry every time new boxes of cigars are opened and placed in the show cases.

Several methods of stockkeeping have been devised to keep a constant record of stock without the clerical labor involved in keeping the conventional form of perpetual inventory. A shoe store, for example, can have a board with pegs on it of various lengths—one peg for each size of shoe. Washers are placed on each peg and every time a pair of shoes is sold a washer is removed from the proper peg. The heights of the pegs indicate the ideal condition of stock. If there are more washers for a particular size than will go on the peg, the dealer knows that he has an oversupply of that size. If the washers do not reach as high on one peg as on the others he knows that he has an undersupply of that particular shoe. When the washers are down to a certain point he will know that he has reached the danger point and that an order should be placed. This method is simple and enables the dealer to visualize the condition of stock at all times. If many styles of shoes are carried the number of necessary boards may occupy a large amount of space.

A somewhat different method keeps the same information on paper with little, if any, more work. Sheets are ruled so as to allow a small space for each size of each style of each article. In each blank a perpendicular mark is made for each item in stock; thus, 11111. When an item is sold, one of these marks is crossed off; thus, 1111𝍸. The number of marks uncrossed indicates the quantity in stock at any time.

Another method which saves the expense of keeping the perpetual inventory and yet informs the buyer when to place orders for more goods, is to separate and label the minimum quantity of goods that it is safe to have in stock, without placing additional orders. For example, if this quantity is one case, the case is placed on the bottom and marked with a red label, so that the merchant knows when he opens this case that it is time to place an order for additional goods. If one-half case is the minimum quantity, one half of the goods are

taken out of a case which is again tied or nailed up and labeled. Such a method may be adequate for many merchants and also for certain small manufacturers.

Purchasing vs. ordering.—A distinction is sometimes made between purchasing and ordering, and some large concerns have separated the two duties and placed them in the hands of different men.[3] It is the duty of the purchasing agent or buyer to anticipate the demand for goods with a variable demand, while it is the duty of the orderer to place orders for those having a fairly constant or regular sale. The orderer places orders for such goods as the stock records indicate are needed, or as they are requisitioned by the production department. His object is to buy in as small quantities as possible, and yet meet the needs of his concern. The buyer, on the other hand, often feels that his usefulness rests on his ability to secure low prices. The danger is that he will over-emphasize price. He may buy from the concern with the lowest price, overlooking the better service rendered by another concern. A low price may also lead him to overbuy and thus tie up capital for unreasonable lengths of time.

Unbalanced inventories.—Such overbuying leads to unbalanced inventories. The object should be to carry all items in stock in approximately the proportions in which they are sold or needed by the factory. A departure from this policy may be profitable when the price is exceptionally low and the concern has ample capital, or when an increase in price is anticipated. As a rule, however, goods should be purchased in the proper proportions. For example, a concern manufacturing an article requiring $4 worth of steel, $3 worth of wood, $1 worth of brass, and $1 worth of rubber, should buy the four raw materials in approximately this ratio. If $900,000 is tied up in stocks of raw materials, the inventory should ordinarily show approximately $400,000 worth of steel, $300,000 worth of lumber, $100,000 worth of brass, and $100,000 worth of rubber. If, instead, the inventory shows $300,000 worth of rubber, $200,000 worth of brass, $200,000 worth of lumber and only $200,000 worth of steel, it is evident that $1,000,000 must be spent for steel and lumber before all of the brass is used up; and $1,800,000 must be spent for steel, lumber and brass before all of the rubber is consumed. This is certainly

[3]Douglas, A. W.: "Merchandising," page 7.

an unwise use of capital and one that may lead to failure or may embarrass the concern if it becomes necessary to borrow large sums from the banks.

Buying on budget.—Some stores use the budget system in controlling the amount of stock purchased and carried in various lines or departments. Under this system the sales of each department are estimated for the next season. On the basis of these estimates appropriations are made for the various departments. The buyers then know their buying limits. They want to secure good assortments of merchandise which they think they will sell to their customers. As their total purchases are limited, they are forced to give attention to the making of selections and are less likely to overstock certain items than buyers not operating under the budget system. They will also close out dead stock more promptly as goods must be moved so that the money tied up in them will be available for new purchases. This system is widely used among large stores and is also applicable to small stores. It is argued that the small store should use the budget system even though one man does all the buying. If he sets aside a certain amount for purchasing each line of goods, he is forced to give separate attention to each line and will probably buy a much better balanced stock than if he buys solely on his "personal judgment." It must not be understood, however, that the appropriation for a certain department cannot be increased during a season. If a particular line of goods sells much more rapidly than anticipated, the appropriation may be increased so that more goods may be purchased for prompt delivery.

Changes in demand.—The rapid changes in the style of many articles, especially women's clothing, are well known. They give the dealers in such articles especially serious problems in buying. Retailers located close to the source of supply often buy small lots of style goods for the early season trade, and as soon as the demand is "felt out," re-orders are placed for the bulk of the season's goods. The risk involved in the handling of style goods, adds to the expense of both wholesalers and retailers and consequently to the prices to the consumers. The success or failure of many dealers in the clothing and dry goods trades, depends upon their success or failure in forecasting consumer demand, as orders must often be placed with the mills and garment makers, months before the goods

are delivered. A great proportion of failures are attributed to poor buying.

It was pointed out above that past records of sales are helpful in the determining of the total quantities of each class of merchandise to be bought and the number of articles to be secured in each price group. The actual selection of style merchandise that will sell at a profit, however, depends upon the judgment of the buyer. He can get the advice of the sellers, read the trade papers, and follow the trends in the style centers. He can get advice as to what his customers will like, but it is no easy matter to buy the right quantities of the right goods. A method that will help retailers is that which requires the salespersons to fill out slips when goods not in stock are asked for.

There is no clear line of demarcation between style goods and staples. The rapidity of change is relative. The demand for nearly all goods changes owing to changes of customs, ideas of sanitation and general cleanliness, and in the standards of living. A few illustrations will help to make this clear. The demand for baby cradles has almost ceased, as the American baby is no longer rocked to sleep. The use of the automobile has caused a marked decline in the demand for porch swings, but has created a demand for all kinds of automobile accessories. Our improved ideas of sanitation and cleanliness have created a demand for window and door screens, and white-lined refrigerators. The installation of electric lighting plants by the farmers has increased the demand for small dynamos, gasoline engines, wire, electric lighting fixtures as well as electric irons, vacuum cleaners and other appliances operated by electricity. With the increased standard of living comes a larger demand for paint, for paint is a sign of progress; for more and better clothing; and for better house furnishings. Even the people in the small towns are buying "period" furniture—Queen Anne, and such like. The old folding-bed is gone and the present tendency is away from metal beds.

Few articles in steady demand.—There are relatively few articles for which the demand is steady over a long period of years. Even with foodstuffs the demand changes. Note the introduction of breakfast cereals, powdered milk, new canned foods, and the substitution of packaged goods for bulk goods. Sugar may be the same whether sold in packages or bulk;

but it makes a difference to the merchant in purchasing, as to the quantities of each that should be bought. The wooden tubs and pails, and the iron kettles and skillets, have gone out of use in the kitchen because of their weight. Such changes, however, are slow. The demand for the old product grows less each year, while the demand for the new product shows a corresponding increase. Yet the demand for many old articles is remarkably persistent. Sears, Roebuck & Co. reports that a considerable demand still exists for Congress gaiters, and that in 1919 they sold 500,000 percussion caps for muzzle-loading rifles. Old flat irons are still used, and in the South there is still some demand for No. 7 stoves and stove furniture, although this size is rapidly going out of use. The demand from the South is largely from the negroes who still want a small, cheap stove. Douglas points out that some people continue to want "old-fashioned" things. Such wants persevere "in certain districts, notably portions of the South, the Philadelphia district, some sections of the Appalachian mountains, and some rural districts of New England, long after they have died out in other parts of the country."[4]

Local demands.—The demands of consumers are influenced by their economic position, race, sex, age, climate, occupation, and sectional customs. The merchant must consider all of these factors in selecting stock suited to the wants of his customers. It was pointed out in a previous chapter that the ability of the local merchant to do this was one of his advantages over the large mail-order house or department store. It is well known that there are many stores in our large cities that cater to the trade of certain nationalities; there is, for instance the Italian trade, the Jewish trade, and so forth. The stock carried by a general store in South Carolina differs in many respects from that carried by a general store in North Dakota. The difference in climate causes different types of clothing to be sold in the two States. The type of farm equipment also differs widely in the two States. The cotton of South Carolina is largely a hand crop, calling for small tools, while the spring wheat of North Dakota is largely a machine crop, demanding heavy machines. The clothing handled by a store catering to the laboring class differs from clothing sold by another store in the same town catering to the professional class. An

[4]Douglas, Archer W.: "Merchandising," page 55.

increase in prosperity of a store's patrons changes the type of goods demanded, a fact that some merchants have been slow to realize. The demand varies from one section to another with the tastes of the people. For example, men in the West do not wear derbies and few outside of New York carry "canes." Other local conditions must also be considered. For example, the people in the alkali plains of the West do not buy aluminum cooking utensils; and the people of California do not buy rugs with floral designs, presumably because they have all the flowers they want outdoors.[5]

Seasonable demands.—The demand for many articles varies with the season. A mild winter decreases the number of overcoats, ice skates, and sleds sold. A hot summer increases the sales of palm beach suits, electric fans, refrigerators and ice cream freezers; while it decreases the sale of lawn mowers, for the reason that a hot summer is also a dry one and the grass needs little cutting. A wet summer causes the grass to grow and increases the demand for lawn mowers. The demand for such items as lawn mowers, varies as much as 50 per cent from one year to another.[6] The demand for agricultural machines varies with the crops, which depend to a very large extent on the season and on prevailing prices. A good wheat crop increases the sale of binders; a dry year decreases the sale of mowing machines but increases the sale of corn knives as more corn is cut to make up for the shortage in hay; a low price of cotton decreases the acreage planted and, hence, the number of cotton hoes sold. To illustrate, the number of grain binders, harvesters, and headers manufactured, varied as follows in census years: 1899, 233,542; 1904, 108,810; 1909, 129,274; and 1914, 215,386.[7] It must be noted also that if the sale of seasonable goods is light during the first half of the season, later favorable weather will seldom make up for the dull business and the season will be poor. For example, if the winter is mild until January and few overcoats have

[5]Rosenwald, Julius, writing in *American Magazine* of July, 1920.

[6]Douglas, Archer W.: "Merchandising," page 59.

[7]"United States Census Reports," as compiled by the Federal Trade Commission. See report on "Causes of High Prices of Farm Implements," page 44. Similar variations are shown for many implements. The variation in the number of implements manufactured depends in part on the demand from farmers bringing new land under cultivation and the demand from foreign countries.

been sold, a cold February will not make up for the poor business, for the reason that most men will make their old coats "finish the winter." Similarly, most people who go into the first half of August without purchasing an electric fan will get along the rest of the summer without one, unless exceptionally hot weather follows. This means that the sale of many seasonable goods depends primarily upon the weather during the early part of the season.

Such goods must be made by the manufacturers and bought by the middlemen in anticipation of the demands. Is there any way by which such seasonable demands can be predicted with any degree of accuracy? The United States Weather Bureau does not attempt to forecast the weather more than a week in advance. It has, however, been noted that the weather tends to run in cycles. A study of weather over a long period of years is therefore valuable.

Weather cycles.—Several persons have advanced the theory that the weather is affected by sun spots or the lack of them. The Smithsonian Institution has been measuring solar radiation for twenty years. The annual amount of heat received from the sun is said to vary as much as 7 per cent. This difference in radiation is supposed by some to be the cause of the difference in seasons. Sun spot activity appears to run in cycles. As yet we do not know enough about such cycles to enable accurate predictions to be made as to the future weather. It may be that when solar radiation and sun spots have been studied for a sufficient length of time, the cycles can be definitely determined and the weather foretold years in advance. The United States Weather Bureau does not deny that long range forecasting may at some time be possible, but it believes that we do not now have information upon which to base such forecasts.

The ability to make dependable long-time forecasts would be of great help to practically all enterprises. Such forecasts would serve as a basis of production, purchasing, selling, and outdoor construction programs.[8]

Can the weather be foretold several months in advance?—

[8]The New York Central Railroad, for example, makes such forecasts and uses them as a basis for planning the maintenance of its properties. An expected cold winter means that the tracks and locomotives should be put into good condition, as the tracks are likely to be covered with snow for unusually long periods, and the locomotives will be subjected to heavy burdens.

The Committee on Statistics and Standards of the Chamber of Commerce of the United States of America has been working on this question and the following quotations are taken from its reports:

"The extremes of rainfall show a tendency to recur within the thirty-five year period. There are more years above or near the average (rainfall) than below it. The wet years have a tendency to flock together, as have the dry ones, but there are rarely more than two dry years associated together.

"The probabilities, therefore, are that three average wet years are likely to be succeeded by two drier ones, and the drier ones in turn by three or more wetter ones. It will also be found that the months of April, May and June . . . correspond in the proportion of their rainfall to that of the average of the entire year . . . There is also the same method of forecasting as to the probabilities of the coming months as have been set forth in the case of the years . . . (In case of an unusually dry spring) there is first the general caution and conservation to be observed in such a probable contingency as to sales, commitments, credits and the like, and then specific instances as affecting the purchase and sale of certain lines, for instance there would be a curtailment of purchases in goods that sell best in wet weather. The conclusion would be also that the corn crop would be hurt by the drought and this would result in a probable diminution in the sale of corn huskers, etc. Like all statistics those of rainfall do not tell the whole story and are not, therefore, absolutely safe guides.

Cold and warm seasons.—"The so-called average, or what are known as 'mean' temperatures are worse than worthless for all business purposes, as they are thoroughly misleading. Years in which there are the most violent differences in extremes of temperature show mean temperatures within a few degrees of each other . . . For the purposes of this report, therefore, there have been chosen the extreme temperatures of both heat and cold . . . In order to have some basis of reckoning, those winters where the temperature falls below zero (at St. Louis) are regarded as 'cold,' while summers recording temperatures above 100 degrees are classed as 'hot.' The study . . . seems to establish very definitely the relation . . . of maximum temperatures in summer

with deficient rainfall. . . . There does not seem to be any connection between temperature and precipitation in winter. A very cold winter may be either a wet or a dry one. There does not seem to be any relation between a hot summer being followed by a cold winter, but in the main, cold winters seem to be succeeded by cool summers. The flocking together of hot summers appears to be confined to two of them at most. These are likely to be succeeded by a flock of from three to four summers of more moderate temperature. In other words it is fairly safe to reckon on a very hot summer being succeeded in the main by one of more moderate temperatures. On the other hand, the winters . . . seem to be associated after their kind. There are groups of cold winters, often three or four together, succeeded by more moderate ones though not so numerously associated. . . . We have then sufficient data to form a basis of a working theory in regard to the relations of business and temperature. It is not and cannot be of absolute exactness but it has been . . . found dependable about 80 per cent of the time. It must be remembered, however, in the sale of seasonable goods . . . that other factors than the weather enter largely into consideration,"—such for example as fashion and the stocks in the hands of the retailers.[9]

Application of principles to purchasing.—The buyer, or purchasing agent, should consider all of the factors affecting demand. He should consider the gradual changes due to whatever cause, and the seasonal fluctuations in demand due to the prosperity of the people, styles, or to the weather. The trend of the sales is helpful in ascertaining a gradual change in demand. In manufacturing or buying goods with a seasonable demand the quantity in the hands of the middlemen must be considered. The retailer considers what he has in stock in placing orders, the wholesaler must consider the stocks in the hands of the retailers, and the manufacturer must consider the stocks in the hands of both wholesalers and retailers. For example, one summer may be cool so that the retailers carry

[9]Special Bulletins: "Relation of Weather and Business in Regard to Rainfall," February 14, 1919; and "Relation of Weather and Business in Regard to Temperature," November 7, 1919. Studies were based on the weather at St. Louis, but the cycles are believed to be similar over a large part of the United States, although the amount of rainfall and the degree of heat and cold are different in different sections.

over large stocks of ice cream freezers. The study of the weather cycle and also of business prosperity may indicate that the sales of freezers will be much heavier the next summer. Yet the number of freezers in the hands of retailers may be so large that the wholesalers should buy very conservatively. The quantity of goods in the hands of dealers may be reported by the salesmen of the firm desiring the information.

Anticipating demands.—Very often the buyer must act without any statistical information and with little specific information of any kind before him. It is thus important for him to understand the psychology of the buyers and be able to note changes almost before they take place. For example, a buyer for a wholesale hardware concern early one spring observed that two out of three women on the street were wearing furs and that many of those in automobiles wore fur coats. He placed larger orders for steel traps than ever before and the next winter could supply the retailers with traps after his competitors' stocks were exhausted. This buyer knew that a heavy demand for furs meant high prices and that high prices for furs would stimulate trapping and hence the demand for traps. A very large part of the small furbearing animals (such as muskrats, coons and skunks) are caught by the boys in our farming States. Trapping is a side issue with most of these boys and the extent to which they trap depends very largely upon the prices paid for furs. The buyer of traps should also consider the weather during the previous winter, for if there had been heavy floods and snows he would know that many traps had been carried away or lost.[10]

Stock Turnover

Meaning of stock turnover.—Goods are received, placed in stock, sold and delivered from stock. When all of the goods received have been sold and delivered, the stock is said to have been turned over. Stock turnover is measured by the length of time required to move the average quantity of goods in stock. It is generally spoken of as the number of times that goods are bought and sold within a given period, as six stock turns per year. In calculating the rate of stock turnover, the cost of sales (purchases with inventory adjustments) is divided by the average inventory (average value of goods in stock).

[10]Douglas: "Merchandising," pages 72-74.

Thus if the cost of sales during the year is $12,000, and the average value of goods in stock $2,000, the stock has been turned six times. Many retail dealers do not keep perpetual inventories and take physical inventories only once a year, usually on January first. If the stock on hand at this time fairly represents the average quantity on hand during the year, the average of the inventory at the first and last of the year may be satisfactorily used in computing the rate of stock turnover. If the stock on hand when the inventory is taken is unusually small, owing to the seasonal nature of the business or to the fact that stocks have purposely been reduced to facilitate the taking of the inventory, the average value of the two inventories cannot properly be used in computing the rate of stock turnover. If the stock is commonly low on January first, inventories may be taken at other times. Some concerns take monthly inventories, which is a desirable practice if the expense is not too great.

The manufacturer's turnover.—Since the manufacturer changes the form of the materials which he buys before he resells them, and since he increases their value by this addition of labor, the rate of capital turnover may be more significant than the rate of stock turnover. A manufacturer can measure his capital turnover by dividing the cost of goods sold by either his working capital or his total investment. The first method gives the number of times per year that the working capital is turned, while the second method shows the rapidity with which the total investment is turned. The rate of working capital turnover is perhaps of greater importance, as the efficiency of working capital can be increased more easily than can that of the fixed investment. The efficiency with which fixed investment is used should not, however, be overlooked. Some manufacturing concerns undoubtedly invest too much capital in buildings and machinery which are needed only during periods of exceptional prosperity. The criticism has been made that many manufacturers invested too large a part of their war profits in extending their plant facilities. All manfacturers can profitably devote their attention to the efficient use of the working capital used to carry stocks of raw and finished goods and to extend credit to buyers. Proper purchasing and stockkeeping methods will tend toward an economical use of capital.

The variation in the rate of turnover of different types of

manufacturers may be illustrated by flour millers and farm implement manufacturers. The flour mills turn their entire capital on the average from 3.6 to 5.7 times per year, while the farm implement manufacturers average turning their entire capital only 0.6 times per year.[11]

Importance of rate of stock turnover to dealers.—One of the chief objects of careful purchasing and stockkeeping is to increase the rate of stock turnover, for the rate at which the stock is turned is one of the principal factors determining the operating expenses and hence the net profits. A high rate of turnover reduces the amount of capital necessary to operate a given business, and hence reduces interest charges. Consider a dealer who has annual sales of $100,000 (cost of goods sold, $70,000) and who carries an average stock of $50,000. If by a more careful selection of goods, and by purchasing smaller lots more frequently he reduces the average stock to $25,000, he thereby reduces the amount of money tied up in inventory by $25,000. At 6 per cent the interest saving is $1,500 a year or 1.5 per cent of sales. The saving is well worth making, but in actual practice the reduction of the average stock may enable the merchant to take discounts on bills which would otherwise be lost. Since cash discounts often amount to from 18 to 36 per cent on an annual basis the reduction in capital may be worth much more than 6 per cent per year.

The reduction of stock may at times enable the dealer to reduce rent by moving into smaller quarters, or by subletting a part of the space formerly occupied. A reduction in rent would ordinarily involve a reduction in heat, light, taxes, and insurance. It may also involve a saving in sales-force expense by getting the stock into a smaller space. On the other hand, it might be expected to increase the purchasing, receiving, and stockkeeping expenses owing to the larger number of shipments received. In actual practice, however, these expenses do not appear to be increased by a rapid rate of turnover.

Reduced risk.—Perhaps a more important advantage of rapid stock turnover is in the reduction of risk of changes in style and prices. It also lessens the loss due to goods becom-

[11]See Federal Trade Commission reports: "Causes of High Prices of Farm Implements," 1920, pages 118 and 310; "Commercial Wheat Flour Milling," 1920, pages, 72 and 76. These ratios are obtained by dividing the sales by the total investments. If the profits had been eliminated, which, it seems to the author, should have been done, the ratios would have been somewhat reduced.

ing soiled and shelf worn. A quick turnover enables the dealer to have fresher and cleaner goods in stock. This tends to stimulate his sales.

Increased sales.—A dealer can increase his rate of stock turnover by increasing his sales and carrying the same amount of stock. This method may increase net profits more than the method of increasing the rate of turnover by decreasing inventory. Sales may be increased in three ways. Stock may be reduced and the released capital used to carry additional or fuller lines of goods. Stock may remain as large as before, but sales may be increased by improved salesmanship, display of merchandise, and advertising without cutting prices. Stock may remain stationary in amount and sales be increased by cutting prices. This is a very common method and if sales are greatly increased by relatively slight price reductions, it may be a very successful way of increasing net profits. The extent to which it is profitable to cut prices to increase sales is discussed in a later chapter. The first two methods are more certain to increase net profits, as gross profits remain the same and the percentage of operating expenses are almost sure to be reduced by the increased rate of turnover.

Actual saving.—The effect of the rate of turnover upon interest charges (interest paid for borrowed funds and estimated interest on owned investment) is shown by the figures on the next page. Total expenses, excluding interest, and total interest are shown for groups of various classes of stores with low and high rates of stock turnover. The stores with a high rate of stock turnover have much lower charges for interest than similar stores with a low rate of turnover. They also have lower total expenses than the stores with a low rate of turnover. This indicates that a dealer who is efficient enough to secure a rapid turnover is generally efficient enough to use labor and space economically.[12]

Large stores generally turn their stocks over faster than small stores. This, however, is only a tendency, as it has been repeatedly found by the Harvard Bureau of Business Research that many small stores turn their stocks as fast as any of the large stores. City stores generally turn their stocks faster than small-town stores. The stores in large cities have an advantage in being located close to the warehouses of the

[12]Figures from Harvard Bureau of Business Research.

Relation of Rate of Stock Turnover to Operating Expenses and Interest

Sales = 100 Per cent

Class of stores	*Year*	*Rate of Stock turnover*	*Total Expense excluding interest*	*Total Interest*
Retail Drug	1919	Under 2	26.2	3.8
" "	"	Over 2.5	22.7	2.3
Retail Hardware	"	Under 1.8	21.1	3.9
" "	"	Over 2.2	16.7	2.6
Retail Jewelry	"	Under 0.9	....	5.9
" "	"	0.9 to 1.3	....	4.5
" "	"	1.3 and over	....	3.3
" "	1921	Under 0.7	41.8	9.5
" "	"	0.7 to 0.9	36.7	6.9
" "	"	1.0 to 1.4	30.3	5.0
" "	"	Over 1.4	29.4	3.4
" "	1922	Under 0.7	36.1	8.4
" "	"	0.7–0.9	34.5	6.2
" "	"	1 and over	32.3	3.9
Retail Grocery	"	Under 8	17.5	1.6
" "	"	8.0–11.9	16.9	1.1
" "	"	12 and over	16.2	0.9
Department Stores:				
Sales under $1,000,000	"	Under 2	25.5	3.7
" " "	"	2.0–2.7	24.4	2.5
" " "	"	2.8 and over	23.8	1.9
Sales over $1,000,000	"	Under 3	28.0	2.7
" " "	"	3.0–3.9	26.0	2.1
" " "	"	4 and over	25.6	1.7
Retail Shoe	"	Under 1.4	25.7	4.4
" "	"	1.4–1.7	25.9	3.3
" "	"	1.8–2.1	24.4	2.6
" "	"	2.2 and over	24.0	2.0
" "	1920	Under 1.5	24.4	4.4
" "	"	2.5 and over	22.2	2.1
Wholesale Grocers	1918	Under 4.5	8.0	1.9
" "	"	Over 6	7.3	1.2
" "	1921	Under 4	10.8	2.4
" "	"	4 to 5.9	9.7	1.9
" "	"	6 and over	9.0	1.4

wholesalers and manufacturers. This is a distinct handicap for the small-town and village stores at a distance from distributing centers, but not one that cannot be largely overcome by keeping a close check on stocks and by wise buying. It simply means that stores located close to sources of supply have an advantage over those located at a distance. Many of the large stores are located in large cities. Expenses tend to increase

with the size of the city, and to decrease as the rate of stock turnover increases. Here are two factors that enter into the figures and exert opposite influences.[13]

Effect of stock turnover on profits.—Stores with a rapid rate of stock turnover may have a lower percentage of gross profit than similar stores with a low rate of turnover. This may be due to one, two, or all three of the following causes:

1. A lowering of prices to secure a large volume of sales in order to increase the rate of turnover and net profits.

2. A lowering of prices owing to the fact that operating expenses are reduced.

3. A higher cost of goods because of a failure to secure "quantity" discounts.[14]

The percentage of net profit is generally larger for the stores with a high rate of turnover than for those with a low rate. This fact is illustrated by the following figures showing the principal expenses and the gross and net profit of various groups of merchants, classified according to the rate of stock turnover.[15]

Wholesale Grocers, 1921

Rate of Stockturn	*Under 4*	*4–5.9*	*Over 5.9*
Number of concerns	65	160	114
	Percentages of sales		
Gross profit	8.5	9.6	9.8
Salesforce expense	2.7	2.7	2.4
Receiving and shipping expense	1.9	2.1	1.9
Buying and management expense	2.8	2.6	2.5
Fixed and upkeep expense	1.8	1.5	1.3
Total expense, excluding interest	9.0	9.7	9.0
Net profit	*0.5	*0.1	0.8
Total interest	4.2	1.9	1.4

* Loss.

[13]See Harvard and Nebraska bulletins, and especially Northwestern University Bureau of Business Research: "Clothing Survey," Vol. V, pages 464-495.

[14]Stores with a rapid turnover are often large city stores which are able to buy cheaply or to secure high prices for their goods. This ability gives such stores a high percentage of gross profit. Nevertheless, figures for several groups of stores support the above statement. See Malcolm P. McNair: "Significance of Stock-turn in Retail and Wholesale Merchandising," *Harvard Business Review*, October, 1922.

[15]Harvard Bureau of Business Research, bulletins Nos. 30, 31, 32, and 33.

Wholesale Grocers, 1922

Rate of Stockturn	*Under* 4.5	4.5–6.9	*Over* 6.9
Number of concerns	103	212	127
Gross profits	12.3	11.7	11.7
Salesforce expense	2.9	2.7	2.4
Receiving and shipping expense	2.1	2.0	1.8
Buying and management expense	2.6	2.6	2.5
Fixed and upkeep expense	1.5	1.3	1.2
Total expense, excluding interest	10.1	9.5	8.9
Net profit	2.2	2.2	2.2
Interest	2.1	1.7	1.2

Retail Shoe Stores, 1921

Rate of Stockturn	*Under* 1.5	1.5–1.8	1.9–2.2	*Over* 2.2
Number of stores	108	97	73	116
		Percentages of sales		
Gross profit	25.2	25.3	27.1	26.2
Selling expense	13.8	13.4	13.3	12.5
Buying and management expense	4.0	4.2	4.3	4.3
Rent	2.9	3.0	2.7	3.0
Fixed and upkeep expense	5.5	5.5	5.0	5.1
Total expense, excluding interest	24.9	25.2	25.0	24.1
Net profit	0.3	0.1	2.1	2.1
Total interest	4.3	3.1	2.9	2.1

Retail Shoe Stores, 1922

Rate of Stockturn	*Under* 1.4	1.5–1.8	1.8–2.1	2.2 *and over*
Number of stores	107	113	80	119
Gross profit	26.7	27.6	28.0	29.9
Selling expense	13.9	12.8	12.9	12.4
Buying and management expense	4.7	5.0	4.5	4.9
Rent	3.4	3.4	3.1	3.3
Fixed and upkeep	6.2	6.4	5.3	5.3
Total expense, excluding interest	25.7	25.9	24.4	24.0
Net profit	1.0	1.7	3.6	5.9
Total interest	4.4	3.3	2.6	2.0

Retail Jewelers, 1921

Rate of Stockturn	*Under* 0.7	0.7–0.9	1.0–1.4	*Over* 1.4
Number of stores	57	77	33	22
		Percentages of sales		
Gross profit	41.3	37.0	31.9	32.8
Wages of salesforce	14.5	12.7	11.0	10.8
Buying, management and office salaries	7.1	6.2	5.8	5.1
Rent	6.9	5.0	4.9	3.7
Taxes	1.5	1.3	1.1	0.8
Fixed and upkeep	12.5	9.2	8.2	7.1
Total expense, excluding interest	42.8	36.7	30.3	29.4
Net profit	*1.5	0.3	1.6	3.4
Total interest	9.5	6.9	5.0	3.4

* Loss.

Retail Jewelers, 1922

Rate of Stockturn	*Under* 0.7	0.7–0.9	1 *and over*
Number of stores	45	61	64
Gross profit	39.9	38.8	37.6
Wages of salesforce	11.6	12.6	9.8
Buying and management	6.4	5.2	6.4
Fixed and upkeep	10.4	9.1	8.0
Total expense, excluding interest	36.1	34.5	32.3
Net profit	3.8	4.3	5.3
Total interest	8.4	6.2	3.9

Department Stores, 1921

Rate of Stockturn	*Under* 2.5	2.5–3.4	*Over* 3.4
Number of Stores	95	94	111
	Percentages of sales		
Gross profit	27.7	28.9	29.4
Salaries and wages	16.2	15.4	14.7
Rent	2.3	2.4	2.5
Advertising	2.2	2.4	2.5
Total expense, excluding interest	25.5	25.7	25.3
Net profit	2.2	3.2	4.1
Total interest	3.0	2.2	1.8

Department Stores With Sales Under $1,000,000, 1922

Rate of Stockturn	*Under* 2	2.0–2.7	2.8 *and over*
Number of stores	96	121	122
Gross profit	28.3	27.6	27.6
Salaries and wages	15.3	15.0	14.4
Total expense, excluding interest	25.5	24.4	23.8
Net profit	2.8	3.2	3.8
Total interest	3.7	2.5	1.9

Department Stores With Sales Over $1,000,000, 1922

Rate of Stockturn	*Under* 3	3.0–3.9	4 *and over*
Number of stores	49	43	57
Gross profit	32.7	31.5	31.8
Salaries and wages	16.0	15.3	14.9
Total expenses, excluding interest	28.0	26.0	25.6
Net profit	4.7	5.5	6.2
Total interest	2.7	2.1	1.7

Retail Grocery Stores, 1922

Rate of Stockturn	*Under* 8	8.0–11.9	12 *and over*
Number of stores	125	168	148
Gross profit	19.7	18.9	19.4
Wages of salesforce	7.1	6.8	6.8
Buying and management expense	2.9	2.7	2.2
Fixed and upkeep expense	2.9	2.6	2.2
Total expense, excluding interest	17.5	16.9	16.2
Net profit	2.2	2.0	3.2
Total interest	1.6	1.1	0.9

The above figures show that net profits increased, or the percentage of loss decreased, as the rate of turnover increased. Net profits were very low, if not entirely missing, for most merchants in 1921, owing to inventory losses and very poor business conditions in most parts of the country. The figures show a marked decrease in the charge for interest. They show that selling expense tended to decrease as turnover increased. In spite of the fact that many of the stores with a high rate of turnover are in large cities, the total expense generally decreased as turnover increased. Rent decreased as turnover increased in the case of jewelry stores, but showed slight increase in the case of shoe and department stores. This was probably due to the fact that many of the stores with high rates of turnover were in large cities where rents are high.

Stock turnover cannot make a profit out of a loss.—The importance of stock turnover has at times been over-emphasized. Stock turnover alone cannot turn a loss into a profit. This calls to mind the old story of the merchant who was told that he was losing a dollar on each item sold. "Oh, that's all right," he replied, "I make it up because I sell so many of them." Stock turnover must be considered in connection with expenses. Considering stock turnover and gross profits alone may be misleading. For example, a merchant may have a turnover of one article twelve times a year and an average gross profit of 10 per cent. The gross profit on the investment in the article is 120 per cent per year. He may be able to turn his stock of another article only three times a year and have a gross profit of 25 per cent. His gross profit on the investment in the second article is 75 per cent per year. He may conclude that the first article is the more profitable. This may or may not be the case. The expense of handling each article must be considered before the net profits on the two articles can be ascertained. If the expense of handling the first article is 9 per cent, his net profit on each turn would be 1 per cent and the total net profit, 12 per cent a year. If the expense of handling the second article is 21 per cent, the net profit on each turn would be 4 per cent, and the total net profit 12 per cent which is exactly the same as on the first article.

Cutlery and nails as an example.—The gross profits and expenses on different articles handled by the same merchant vary

widely.[16] The gross profit can generally be ascertained, but in stores without a departmental organization it is very difficult to accurately determine the expense involved in handling different articles. Compare high-grade cutlery and nails handled by a retail hardware store. The cutlery may carry a gross profit of 50 per cent, while the gross profit on the nails may be only 7½ per cent. A large line of cutlery must be carried and sales are irregular. It may be impossible to turn the stock of cutlery more than twice a year. Nails, on the other hand, can generally be obtained on short notice from a nearby jobber, so that relatively small stocks need be carried. They are in regular demand and it may be possible to turn them 18 times a year. As to the relative expense of handling the two lines, it is evident that the cutlery must be handled carefully, kept wrapped or in a glass show case, and rubbed frequently to prevent rusting, while the nails are kept in the kegs or dumped into bins in inconspicuous parts of the store. The cutlery frequently is given space in the show windows and advertised in the newspapers. The nails sell without either of these expenses. Cutlery must be shown to the customers, and the salesmen must wait while the customers make their selections. In selling nails, on the other hand, the salesman need only weigh out the quantities of the different kinds and sizes desired by the customers, who know what they want before they enter the store. It is evident from these facts that the expense of selling nails is much less than the expense of selling cutlery. It may be difficult, however, to determine accurately just what this difference amounts to in the ordinary store. Suppose it is determined that the cost of handling nails is 5 per cent, while the cost of handling cutlery is 30 per cent. The gross profit on the cutlery is 100 per cent per year and the expenses 60 per cent, so that the total net profit is 40 per cent on the investment in cutlery. The annual gross profit on the nails is 135 per cent, and the expenses, 90 per cent. The

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[16]Paul Findlay, a writer for grocery papers, presents an estimate that includes rent for space used; cost of labor in wrapping and selling; cost of bags; cost of delivery; and cost of taxes, insurance, collections, depreciation, and so on, which shows that the retail grocery store has an expense of 5.67 per cent in handling sugar. Sugar can be turned 100 times a year according to this estimate. Compare this with the average cost of 15 to 20 per cent for handling all goods handled by a grocery store.—Writing for "Sugar Press," quoted in *Journal of Commerce* of April 28, 1923.

total net profit is equal to 45 per cent of the investment in nails. In this case nails are actually more profitable than cutlery in spite of the low gross profit realized on their sale.

Variation in rates of turnover.—Average rates of turnover were shown in the preceding chapter with the average operating expenses. The dealer in perishable goods will turn his stock much more rapidly than the dealer in non-perishable goods. A dealer in fresh meats or in fresh fruits and vegetables may turn his stock every 48 hours. One grocer turned his meat stock (fresh and cured) 85 times per year, averaging thereby a turnover every three and one-half days. On the other hand, many retail jewelers fail to turn their stocks once a year, and the retail furniture stores require from 5 to 7 months to turn their stocks. Convenience lines can be turned more rapidly than shopping lines. The retail grocer should turn his stock at least 12 times a year or once a month, while the retail clothing dealer who turns his stock three times a year is doing well.

There is often a greater variation in the rate of turnover between individual dealers handling the same line of goods, than between the average rate for different classes of dealers. This variation is illustrated by the following figures.

Annual Rate of Stockturnover

Type of stores	*Common*	*Lowest reported*	*Highest reported*	*Attained by efficient stores*
Retail Groceries	8	3.5	33	12
Wholesale Groceries	6	2.1	19	7
Retail Jewelry	0.8	0.2	2.8	1.3
Retail Shoes	2	0.5	16.3*	2.5
Retail Hardware	2	0.9	26.8	2.5
Retail Drugs	2.1	1.1	7.4	2.8
Retail Clothing	2.1	1.0	5	2.7

* This figure was reported to the Harvard Bureau for 1921. It is an exceptional high rate, as shown by the fact, that, out of 407 firms only one other turned its stock more than 7 times and only 14 others more than 4 times.

Turnover for specific items.—The turnover figures given above relate to the total business of separate stores. Most stores have some items that turn much faster than others. In a grocery store, sugar or eggs will turn much more rapidly than canned goods. The store's net profit is the result of the net profit made on all the separate items handled. A determination of the rate at which different items turn will help to determine which items are profitable. The rate of turnover

can be computed from the purchase and inventory records. To know accurately which items carry a net profit, it is also necessary to distribute the operating expenses to the various items, establishing a departmental accounting system. This is very difficult for most small dealers. It should be noted in passing that the cost accountants have up to this time devoted very little attention to a proper distribution of expenses involved in the marketing of merchandise.

Capital turnover.—When goods are sold on credit, the rate of stock turnover fails to reveal just how efficiently capital is used, for the reason that the capital may be tied up in "accounts receivable" for several weeks or months after the sales have been made and the goods delivered. For this reason the rate at which the working capital in the business is turned may be a more significant figure.

When the stock of goods on hand is low on January 1, and inventories are not taken at other times, it is impossible to calculate accurately the rate of stock turnover. Farm implements are sold principally during the spring and fall, and the stock in the hands of the retail dealers on January 1 is below the average on hand during the year. The Federal Trade Commission found it impossible to calculate the average rate of stock turnover for the various classes for rural dealers handling farm implements, as their balance sheets were made up for January 1. Instead, it calculated the average number of turnovers of working capital per year. As a very large part of the sales of these dealers is made on credit, the turnover of working capital probably is a better index of their efficiency than the rate of stock turnover.[17]

The rate of working capital turnover for these dealers in-

[17]Federal Trade Commission: "Report on Causes of High Prices of Farm Implements," page 274.

Number of Turnovers of Working Capital per Year

Class of dealer	*1915*	*1916*	*1917*	*1918*
Implement	1.97	1.99	2.19	2.84
Implement and Hardware	1.46	1.49	1.77	1.88
Implement and Automobile	3.27	3.55	3.52	3.55
Implement, Hardware and Automobile	2.40	2.19	2.69	2.53
Implement and Lumber	1.46	1.38	1.49	1.62
Implement and General Merchandise	1.51	1.50	1.66	1.88
Implement and Miscellaneous Lines	2.10	2.26	2.55	2.58
Average All Classes	1.83	1.89	2.16	2.25

creased from 1.83 in 1915 to 2.25 in 1918. The increase was due primarily to a more prompt payment on the part of the farmers in 1918.

Household furniture also is sold largely on credit. The Trade Commission in studying the furniture trade computed the rate of investment turnover by dividing the sales by the total investment.[18] During 1920 and 1921 the *investment* of the retail furniture stores turned over at the rate of 1.44 times per year, compared to a *stock* turnover of 2.25 times. The stores selling more than three-fourths of their furniture on the installment basis had an average rate of investment turnover of 1.18, while the stores selling less than half of their goods on the installment basis had an average rate of 1.53. The retail hardware dealers had an average capital turnover of 2.0 in 1922 compared with an average stock turnover of 2.3 times. The dealer should devote relatively as much attention to capital invested in receivables as to capital invested in merchandise.

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Questions—Chapter XIX

1. What is the object of purchasing? Distinguish purchasing and ordering. What are the qualifications of a successful buyer?

2. What is a perpetual inventory? What is its use? What is its relation to buying? What is meant by a balanced inventory?

3. Why does demand change? What factors must manufacturers of the following articles consider in estimating the demand for next season: silks, carpets, automobiles, paints, and grain binders?

4. What is stock turnover? How calculated? What is its importance to the merchant? Show how an increase in rate of turnover affects net profits. Distinguish stock and capital turnover.

5. The buyer of women's ready-to-wear clothing for a department store located in an eastern city has made it a practice to buy about one-half of the expected season's needs before the season opens, and the remainder during the season. This lessens the risk of buying styles which are poor sellers and also requires less capital. If an advance in price is expected, he buys more than 50 per cent in advance; while if prices are falling, he buys less than 50 per cent. What policy would you recommend for the coming season?

6. The Jones Grocery Store sells one case of a certain brand of soap per day. It has been buying in 10 case-lots. By buying in 100 case-lots a discount of 2 per cent can be secured; by buying in 200 case-lots a discount of 3 per cent can be secured. Regardless of the amount bought, the terms are 2 per cent 10 days, net 30 days. Money

can be borrowed at the rate of 6 per cent per annum. In what quantities should this soap be purchased? Why?

7. The Consolidated Manufacturing Co. uses 5 cars of coal per week when the plant is running at normal full-time capacity. Coal often can be bought somewhat cheaper in the early summer than during the winter. The company has storage space sufficient for 200 cars. What factors should the purchasing agent consider in determining the amount of coal that he will buy during the early summer?

8. The Giant Wholesale Grocery Co. has its business divided into eight departments—canned goods, cereals, and so forth. In charge of each department is a manager who buys all the goods in his department, and fixes their selling prices. Each manager practically has full authority in making purchases, the only limitation being that exceptionally large purchases which require large sums of money are passed on by the board of directors. Each manager is judged by the profit which his department shows. Physical inventories are taken twice a year. At other times, the buyer must take an actual count to determine the specific quantity of any article in stock. The stock turnover is only four a year. Suggest changes in purchasing and stockkeeping.

9. A large retail food store (annual sales over $2,000,000) has been accustomed to buy practically all its goods direct from the manufacturers, through brokers, or from carlot receivers. It has prided itself on being big enough to buy direct and save the jobber's margin. It believed that it was saving money by buying in this way and storing the goods until sold. Butter, eggs, fresh meats, and fresh fruits and vegetables turn over rapidly, but capital is often tied up in canned goods and certain other lines for several months. The manager in the past has given little thought to the rate of stock turnover, but his attention is called to it, and he begins to study the subject. He is astounded at the interest, rent, and insurance charges involved in carrying stocks for long periods. He is convinced that it would be profitable to buy many items in small lots from the jobbers in order to save the carrying charges. He does not know, however, how to determine when it is wise to buy in large lots from the manufacturers, and when it is wise to buy in small lots from the jobbers. Outline specifically the information that he should have compiled to answer this question.

10. McCarthy & Williams conduct a retail hardware store in a town of 5,000 inhabitants. Their books show the following for 1923: inventory January 1, $25,000; purchases $50,000; inventory December 31, $30,000; sales $60,000; salaries of the two partners, $3,000 each; salaries of four salesmen, $1,200 each; other expenses $3,700. Compute the rate of stock turnover and the percentage of gross profit, operating expense, and net profit. Criticise the conduct of the business.

Chapter XX

CO-OPERATIVE MARKETING

Meaning of coöperation.—Coöperation may be defined as joint action by a number of people for the purpose of advantageously manufacturing, buying, or selling goods, or engaging in other activities for their mutual benefit.

Classes of coöperative enterprises.—There are several classes, or types, of coöperative enterprises. The principal ones are: productive coöperative enterprises, as the ownership and operation of manufacturing plants by the workers; distributive coöperative enterprises, as the joint ownership and operation of the marketing machinery by the consumers or producers; financial coöperative enterprise, as banks and building and loan associations; and coöperative insurance enterprises. Distributive coöperation, alone, comes within the scope of this book as the other types of organization are not primarily concerned with marketing. The coöperative factory has to market its product, but under the present marketing system such a factory would have substantially the same marketing problems as any other factory and so its problems need not be discussed separately.

There are three types of distributive coöperative enterprises. First, the buying organizations of consumers which generally operate coöperative stores, or buying clubs; second, coöperative enterprises among dealers, such as coöperative jobbing houses, coöperative delivery companies, and so on; and third, selling organizations of farmers or other producers.

1. Consumers' Coöperation

By consumers' coöperation is meant the ownership and operation of the marketing machinery by the consumers.

Object.—The object of most coöperative stores is to reduce the cost of living. The coöperative stores attempt to reduce the cost of living by eliminating the middlemen and securing their profits for the consumers, and making goods pass as

directly as possible from producers to consumers. The plea for the establishment of such stores is based primarily on the expensiveness and inefficiency of our present marketing system. It is argued that the evils of the present methods are due to the profit system, and that the evils can be removed only by removing the cause. The profit system is said to lead to high prices, poor quality, deception of the buyers, and to forcing the sale of goods carrying large profits regardless of whether the buyer has a use for them or not. Coöperative stores attempt to reduce the cost of goods to the consumers, handle better goods, tell the buyers the truth about all goods, and leave them free in making selections.

Some coöperative stores have the further object of promoting social activities among their members, and aiding the development of the coöperative movement. In furthering these latter objects such stores may use all or part of their profits for establishing club rooms and playgrounds, or in spreading coöperative propaganda.

History of consumers' coöperation.—Experiments in distributive coöperation can be traced back into the eighteenth century, but the first movement to attract general attention was that started by Robert Owen in England in 1824. Owen's scheme, however, was broad and essentially communistic. The consumers' coöperative movement was really started in Rochdale, England, by 28 weavers who met in 1844 and started a coöperative store. The original capital was only $140 and the "Toad Lane Store," where business was started, was rented for 25 cents a week. This association, the Rochdale Equitable Pioneers, was successful from the first. Within a year the association numbered 74 members, and in ten years had 900 members and a capital of over $34,000. The plan had been adopted by thousands of other organizations in England and other countries, and from this humble beginning in Rochdale, the coöperative movement has grown until there are in the neighborhood of 60,000 consumers' coöperative societies in the world, with a total membership of nearly 20,000,000 families.

Importance of consumers' coöperation.—The importance of the consumers' coöperation may be shown by figures giving the number of societies, number of members, and the sales of such societies in some of the countries of Europe, where the movement has had its principal growth.

Importance of Consumers' Coöperative Societies in Certain European Countries[1]

Country	Year	Number of Societies	Number of Members	Sales	Average per Society	Average per Member
Austria	1916	636	490,717	$39,815,000	$62,602	$81.14
Belgium	1912	205	170,748	9,182,000	44,789	53.77
Denmark	1915	1,562	243,855	24,297,000	15,555	99.64
Finland	1916	486	181,752	31,391,000	64,591	172.71
France	1918	2,233	1,129,684	109,066,000	48,842	96.55
Germany	1918	2,277	2,900,000	181,649,000	79,776	62.64
Italy	1915	1,970	411,358	30,270,000	15,366	73.87
United Kingdom	1921	1,489	4,531,577	1,073,574,000	721,000	236.91

Consumers' coöperative societies are important in many other European countries. Russia had 40,000 such societies in 1919. The various forms of coöperative enterprises are estimated to reach 100,000,000 people in Russia. Consumers' co-operative societies are also important in Greece, Holland, Spain, Switzerland and many of the new European countries created as a result of the World War. The movement grew rapidly during the World War, owing to an attempt by consumers to escape from "profiteering" merchants. The movement has continued to grow since the War. Several of the countries listed in the above table report an increase in the number of societies, number of members, and presumably in volume of business also. More recent figures are not given for several countries, because of the difficulty of fairly expressing the sales made in their depreciated currencies in American money. It is estimated that 43 per cent of the families in Great Britain, 22 per cent of the German families, from 10 to 12 per cent of the population of France, and one-half of the people of Denmark are members of coöperative societies. In Great Britain it is estimated that the members buy one-half of their food and one-tenth of their household supplies from the co-operative stores. Stated another way, the coöperative stores sell in the neighborhood of 20 per cent of the total food sold in Great Britain, but less than 5 per cent of the clothing, household furniture, and other classes of merchandise.[2]

[1] Figures from *Monthly Labor Review*, October, 1920, and January, 1923.

[2] *Monthly Labor Review*, October, 1920, and November, 1922.

Coöperative wholesale societies.—Coöperative buying ordinarily starts with retailing. Its aim is to eliminate the profits of all middlemen, and make goods pass as directly from producers to consumers as possible. The object is to secure goods for the consumers at the producer's, or the wholesale price, plus the necessary expenses of transportation and retailing. To this end, wholesale warehouses or associations are established as soon as possible. The idea is to own the marketing machinery as far back toward the producers as possible. Productive enterprises such as bakeries, shoe factories and preserve factories are often secured when the societies become large and have sufficient capital. The English societies send their buyers to foreign countries, and import a considerable part of their own goods. The affiliated retail societies may establish national wholesale societies, which may have branches in convenient locations. Such national wholesale organizations have been established in England, Scotland, Ireland, Germany, Russia, Italy, the United States, and other countries. The German wholesale society in 1918 had 2,140 affiliated retail societies. The combined sales of the English, Scottish and Irish wholesale societies amount to over $400,000,000 a year, supplying the retail stores with over 60 per cent of their goods.

Principles of the Rochdale plan.—It has been stated that most of the coöperative stores that have succeeded have adhered more or less closely to the Rochdale Plan, while those that have failed have done so because they have not followed the sound principles laid down by the Rochdale Pioneers. The Rochdale Plan is based on three principles: democratic control, cash sales, and sales at prevailing market prices. Under the Rochdale Plan the capital is contributed by the members; but regardless of the number of shares owned, each member has one vote. The one-man one-vote principle is fundamental. The rate of return on the capital is limited to the legal rate. Any surplus is used to establish reserves or is distributed to members in proportion to their purchases. Sales are made only at the prevailing market prices. This policy gives a surplus from which reserves, so essential to the successful operation of any business, can be set aside. It is clearly impossible to tell in advance what dividends can be paid; hence, to attempt to sell at the net price is to invite disaster. Sales are

made only for cash. Many retail stores have failed owing to an unwise or an over extension of credits. Because they started with a small capital, cash sales were necessary to the Rochdale Pioneers, as they also paid cash for the goods purchased. Many coöperative stores do extend a limited amount of credit, and this policy does not always lead to failure, but it adds to expense and lessens the saving which is the object of such stores. Sales for cash enable the society to pay cash for its goods, and take the cash discounts, reduce expenses, prevent losses from bad debts, and enable the store to be operated with a smaller investment. The one-man one-vote principle prevents a small group from securing control of the organization and changing it from a coöperative to a profit-making enterprise as has often happened in the United States.

Development in the United States.—Consumers' coöperation in the United States began in Boston in 1844, when a tailor started a buying club for the New England Association of Mechanics and Workingmen. The Workingmen's Protective Union, later known as the New England Protective Union, grew from this club. By 1852, 403 stores had been organized. The American Protective Union was formed as a result of a split. By 1857, this latter organization reported 350 branches with sales of $2,000,000. In all, 769 stores were established, but all either failed or became private concerns. Among the causes of failure were listed: sales at cost; sales on credit; payment of more than the legal rate of interest on stock, so that some concerns came to operate for the benefit of the stockholders; poor management; and lack of the spirit of coöperation.

Many other organizations were instrumental in establishing coöperative stores. The Grange, or the Patrons of Husbandry, an organization of farmers, started many stores. The Sovereigns of Industry, the Patrons of Industry, the Farmers' Alliance, the Labor Exchange and the Right Relationship League, were some of the other organizations active in establishing such stores. Most of these stores failed, but a few succeeded in staying in business, although some of the successful stores became joint-stock companies operated for the profit of the stockholders. There were approximately 200 coöperative stores in the United States in 1903, and 400 in 1916. Organizations to spread propaganda and aid in establishing stores

succeeded in starting many stores, and in increasing interest in the subject of coöperation. Consumers' coöperation, however, remained relatively unimportant in the United States until the World War sent prices skyward.

Reasons for failure.—Poor management and lack of support by the members are the most important reasons for the failure of coöperative stores. Many stores have failed because neither the members nor the managers really had the cooperative spirit. The American people are constantly on the move. This complicates the problem of the coöperative store. The average income has been much higher in this country than in Europe, and the people have paid less attention to small savings. They have been unwilling to undergo the inconvenience of trading at the coöperative store for the small savings possible. The American people have been individualists and independent. They have not learned to coöperate. The stores that have succeeded have generally been located among a group having a rather strong class or group feeling; for instance, among people of the same race or nationality, among college students, among a labor group that has learned something of coöperation in their labor unions, or among farmers. Many of the stores that failed had poor managers. Oftentimes the members were unwilling to pay enough to secure a competent manager. It is so easy to enter business in this country that a man with ability enough to operate a store successfully is likely very soon to leave the coöperative organization and open a store of his own where he can secure all the profits for himself. The success or failure of a retail store depends to a large extent upon the manager, and it is hard to secure the best management from hired employees. The members and directors have often been wholly inexperienced in business matters, and so, incapable of properly supervising operations. It probably would not be far from the truth to say that the stores that had efficient management succeeded, and that the others failed. It has been observed that all conspicuously successful coöperative stores can trace their success to the influence of some conspicuous leader. This leader must be backed up by other members, and by the manager and clerks. In actual practice the location has a good deal to do with the success of a store. Theoretically, a coöperative store can take the cheapest available location, as the members are supposed to go out of

their way, if necessary, to patronize their store. In practice they fail to do this; and to succeed, the coöperative store should have a convenient location.[3] Some stores have started with too few members, too little capital, or with wrong ideas. The failure of many stores has been attributed to the departure from the Rochdale plan. Sales have been made on credit, and often below the prevailing market prices. A few stockholders have often been allowed to secure control of the stores. If all the stores had been operated in accordance with the rules laid down by the Rochdale Pioneers, the percentage of successes would undoubtedly have been larger.

The recent movement.—The interest in coöperation has been growing for some years, and the movement was given a fresh impetus by the rapid increase in the cost of living during the World War. Hundreds of new stores were opened. The conditions were favorable for the growth of the movement. The fact that prices rose more rapidly than the wages and salaries of many people, forced them to economize. Also, the fact that prices were rising made it an easy matter to conduct a store profitably, as profits were made on inventories.

The United States Department of Labor obtained reports from 1009 retail and 10 wholesale societies in 1920. On the basis of its investigation it estimated that there were, in 1920, approximately 2,900 retail coöperative stores in the United States with 775,000 members and annual sales of $285,000,000. The average membership per store was 269, and the average sales $99,406.[4] These figures include not only the purely consumers' coöperative societies, but the farmers' coöperative organizations which bought as well as sold goods to their members. Many coöperative stores failed during 1920, 1921, and 1922, but the rate of failure was claimed to be as low or lower than among privately owned stores. The movement has had its greatest growth in the East North Central States, West North Central States, and on the Pacific Coast. Kansas and Wisconsin are two of the leading States. The cooperative stores deal primarily in groceries, meat, and general merchandise. Ninety per cent of the stores reporting to the Department of Labor in 1920 handled either foodstuffs or general merchandise.

[3] See U. S. Dept. of Agriculture, Bulletin No. 394, 1916, pages 7 and 27.

[4] *Monthly Labor Review*, August, 1922.

The ten wholesale societies reporting their sales to the Department of Labor in 1920 had a combined membership of nearly 1000 and total sales of over $9,000,000. It appears from the report of the Labor Department that coöperative wholesaling is not nearly as well developed as coöperative retailing in the United States.

The coöperative stores have become established as a part of our marketing machinery, although as yet they handle only a very small percentage of the total merchandise sold in the United States. In a general way the combined sales of all the coöperative stores may be said to be approximately equal to the sales of our largest chain of stores, the Great Atlantic and Pacific Tea Co. It seems impossible to make any worthwhile prediction of their future growth. It is significant that some of the organizers have advocated the establishment of such stores, not on the basis of the money-saving, but on the basis of developing a coöperative spirit, of spreading coöperative propaganda, of loyalty to a cause, and of the social features possible with such an organization. Savings were to be incidental, and perhaps were to go for social features or for propaganda, and not to the buyers. Many of the stores in the past have failed because of a lack of loyalty on the part of members. If the organizers succeed in "selling" the people on the idea of coöperation, coöperative stores will succeed, and it is doubtful if very many can succeed until the members are "sold" on this principle.

Organization.—The average capital of 662 consumers' cooperative stores reporting to the Department of Labor in 1920, was $17,500; while the average capital of 265 agricultural associations selling at retail, was approximately $42,000. The average number of members for each of the strictly consumers' societies was 283 and of the agricultural societies, 234. Two-thirds of the stores had less than 200 members, and one-third of the stores had less than 100 members. Less than one per cent of the societies had over 2000 members. The great majority of these stores operate on the "one-man one-vote" plan, although some vote according to the number of shares of stock owned. The average reserve carried by 314 consumers' stores in 1920 was $5,142.

Sales.—Most coöperative stores sell to both members and non-members. A report by the United States Department of

Agriculture in 1915, based on reports from 42 Western co-operative stores showed that 40 per cent of their sales were made to non-members. A report covering 50 Minnesota co-operative stores in 1913 showed that 41 per cent of their sales were made to non-members. Some stores pay dividends on purchases only to members, while others pay to members and non-members alike. Many coöperative stores pay a lower rate of dividend to non-members than to members. Of the stores reporting to the Department of Labor in 1920, 454 reported paying purchase dividends, but only 145 reported paying dividends to non-members.

Most of the coöperative stores in the United States do a certain amount of credit business. The Department of Labor reports that most coöperative stores extend to their members credit equal to from 20 to 80 per cent of their share capital, and equal to 100 per cent of their loan capital. Reports from large groups of stores indicate that from one-third to one-half of their sales are made on a credit basis.

Most of the stores sell at the prevailing market prices. One report covering 85 stores showed only 3 selling for less than the prevailing prices. The term "prevailing market price" is, however, not always clear. Does this mean the price in a service (credit and delivery) unit store or the price of a cash-carry chain store? Many managers are perplexed as to how their goods should be marked. If they mark them on a level with the service stores, many of their members will patronize the chain stores. If they mark them on a level with the chain stores, they may have very small profits from which to pay purchase dividends. The correct policy would seem to be an attempt to mark the goods at the level of the other stores in the community most likely to be patronized by their members. This will often mean the cash-carry stores. It does not, however, mean that the coöperative store must meet the lowest prices offered in the community on "specials" or on inferior goods. The manager can tell his members that the securing of occasional bargains or the buying of inferior goods at cut-prices is not so much to their interests as is the assurance of good merchandise and fair prices the year around. A coöperative store organizer has stated to the author that he did not advocate opening stores where they would have to meet chain-store competition, which was not always a success.

Opportunities for saving.—The primary object of the cooperative store is the elimination of the middlemen's profit. There also are supposed to be several economies in the operation of such stores. Such stores do not need an expensive location. As the members are trading with their own society, the store can be located on a side street where the rent is low. There is also supposed to be a saving in wages. Fewer clerks are needed as sales are not pushed, and the customers very largely select their own goods. It is also claimed that managers can be secured for lower salaries than are paid by other stores. This may be true in Great Britain, where the managers are ardent coöperators, but in this country many stores have failed because the salaries paid were too low to secure good managers. The coöperative stores can also eliminate advertising expense, and materially reduce or eliminate delivery expense. If sales are made only for cash, a saving is made in interest, in bookkeeping expense, and in losses from bad debts. Some claim that coöperative stores should secure a more rapid stock turnover than other stores owing to the fact that they carry only goods demanded by their customers and have steady sales. These savings in operating expenses together with the elimination of profit should mean savings in the retail stores equivalent to from 5 to 10 per cent of sales. When coöperative wholesale houses are established, further savings are possible. If coöperation should grow to the extent some of its advocates hope, all the middlemen's profit would be eliminated and the consumers' organizations would produce their own goods, or purchase directly from producers' coöperative organizations, and thus materially reduce the total marketing expenses.

Operating expenses.—The operating expenses of 35 coöperative stores in 1915 varied from 7 to 17 per cent of sales, the average being 11.7 per cent. The average expense of 61 coöperative stores in Minnesota in 1913, was 10.9 per cent of sales, while in 1917, 42 stores had average expenses of 8.4 per cent. A comparison with the expenses of non-coöperative stores similarly located and handling similar goods indicates that the coöperative stores had an average saving in operating expenses equal to from 2 to 3 per cent of sales.

The rate of stock turnover of 35 coöperative stores in 1915 varied from 2.1 to 16.1 times per year, the average being

4.4 times.[5] This does not indicate that the coöperative stores have succeeded in turning their stock any more rapidly than non-coöperative stores.

Actual savings.—Most coöperative stores sell at the prevailing market prices, so that the purchase dividends represent the savings to the members. The Department of Labor found that of 815 stores paying purchase dividends, 454, or 55 per cent, paid purchase dividends during the last quarter of 1920. Of these 454 stores, 145 paid dividends to both members and non-members. The common rate paid by the purely consumers' stores was 5 to 6 per cent; and by the agricultural societies, 2 to 3 per cent. A report of 57 coöperative stores in Minnesota in 1913 showed that 18 paid no dividends even on stock, 11 paid dividends on stock, but not on purchases, and 28 paid dividends on purchases. These purchase dividends averaged 5.6 per cent to members and 3.5 per cent to non-members. In 1917, a more prosperous year, out of 58 stores in this State, 13 paid stock dividends only, 6 paid trade dividends only, 27 paid both stock and trade dividends, and 12 paid no dividends. Reports from 42 of these 58 stores in this year showed average net profits of 4.9 per cent of sales. A report covering 35 stores in 1915 showed average net profits of 6 per cent on sales. Another report covering 60 stores in 1915 showed that only 11 of the 60 stores earned 5 per cent or over on their sales.

A comparison of these figures with the net profits of private stores handling similar goods indicates that the average net profits of the private stores are nearly as high as the purchase dividends of the stores. If the coöperative stores have lower operating expenses, this would indicate that they were at a disadvantage in purchasing, or that they used a part of their profits for propaganda, social activities, reserves, or other purposes.

A saving of 5 per cent on groceries would amount to about $25 per year for a typical family having an annual income of $1,200 to $1,500. Much larger savings would be possible with other lines of merchandise. Groceries are staple goods and handled on comparatively narrow margins by the retailers. Unless coöperative enterprises can reduce wholesaling and manufacturing expenses or profits, they will have limited

[5] United States Department of Agriculture, "Bulletin No. 394," page 24.

opportunities for saving in sale of staple groceries. The retail margin on clothing, dry goods, shoes, furniture, carpets and household supplies are much larger, ordinarily amounting to from 30 to 60 per cent of the selling prices. There is also much less chain-store competition to meet in the sale of these lines. It would seem that the sale of such lines offered much larger opportunities for saving by coöperation than the sale of foodstuffs. The savings made by some university coöperative stores in the sale of students' supplies, sporting goods, and wearing apparel appear to support this contention. In fact, the private stores in several Eastern cities allow discounts of 5 per cent or more on these lines to members of consumers' buying clubs.

The sale of wearing apparel and household furnishings involves a much greater style risk and requires more judgment in the selection of goods than the sale of staple groceries. It might be necessary for the coöperative stores to handle only those articles that are more conservative and more or less standard, letting their members patronize private stores for such goods coming under the head of "fads" or "extreme patterns."

The reason why such a large percentage of the coöperative stores have handled groceries or general merchandise, including foodstuffs, seems to be that many of them have been started by labor groups whose members spend a large percentage of their incomes for food. Such people are inclined to think of a reduction in living expenses as a reduction in the cost of food. Even people who spend only a small part of their income for food seem to think of groceries as soon as a coöperative store is mentioned. This may be due to the fact that most coöperative stores in the past have handled groceries, or to the fact that most people think so much about food that their thoughts turn to it naturally when saving is suggested. To illustrate, the average housewife will complain more about an increase of one cent a loaf in the price of bread, than on a $1 rise in the price of a pair of shoes. Yet in the course of a year the dollar increase in the price of shoes will take a good deal more out of the family budget than the increase of one cent a loaf in the price of bread.

Conclusions on consumers' coöperation.—Mr. Edward A. Filene, a prominent Boston merchant, says "theoretically

coöperative stores either individually, or organized in chains . . . . ought to become the stores of the future."[6] It has been pointed out that the large chains operating on the non-service method probably represent the highest efficiency yet attained in retail merchandising. If such chains could be made coöperative, so that their profits would be passed on to the consumers, and at the same time retain their buying power and efficiency of operation, perhaps the ideal merchandising system would be attained. As a matter of fact, however, it is exceedingly difficult to attain efficiency without the opportunity for personal profit. Therein lies the problem of co-operation—to make people industrious and efficient without the stimulus of personal gain.

Coöperative Enterprises Among Dealers

Jobbing houses.—There are many types of coöperative enterprises among dealers. The coöperative jobbing grocery houses have been already mentioned. If a coöperative wholesale grocery house is successful, it would appear that a coöperative wholesale hardware house, a coöperative dry goods house, or a coöperative drug house should also be successful. If the retail grocers can coöperatively run their own wholesale plant, why can not the retail hardware dealers, the retail druggists, or any other class of retailers who commonly buy their goods through wholesalers? The retail grocers did not do this, however, until faced by extinction through chain-store competition, and it is doubtful whether other classes of retailers will organize many such coöperative jobbing houses until forced to do so for self-preservation. The experiment, however, is being tried out in lines other than groceries, and several successful enterprises have been reported among other classes of retailers.

Buying clubs.—There are many buying clubs among the retail grocers. Such clubs try to secure "quantity" discounts, or the same prices as the wholesalers, without incurring all the expenses of operating a wholesale warehouse. The members hold frequent meetings and decide the question of purchases. One member usually makes the purchases and has the goods shipped to him or to some member whose store is centrally located. He may be paid something for his services in this

[6] Writing in *System*, March, 1920.

connection. Members call for their goods. The goods must be paid for in advance, on delivery, or all bills must be paid promptly, say within a week. If goods are not paid for in advance, the member doing the buying then runs a certain risk as a member may obtain goods and fail to pay for them. To be successful, a buying club must be very careful about the honesty and financial ability of its members and about allowing them to receive goods in advance of payment.

Buying clubs undoubtedly enable their members to buy some goods more cheaply than they could individually. It is evident, however, that a grocer can not secure all his goods from a club. The club is likely to buy only important articles. Again the club is by no means always able to buy on the same terms as the jobbers. It would seem that buying clubs when successful would develop into coöperative jobbing houses.

Central delivery systems.—A central delivery system is one that handles, with one set of delivery equipment, all the deliveries for a group of merchants. The system may be owned and operated coöperatively by the merchants, or it may be privately owned and operated for profit. Several coöperative systems have been sold to individuals to be operated for profit. The reasons for this change have been that the manager is freed from the supervision of several merchants, some of whom are trying to gain advantages over others; that the manager has the incentive of a profit and is no longer a salaried employee; and that the permanence of the system is not threatened by the constantly changing ownership of the stores. The operation of the system and the advantages to the merchants are much the same regardless of whether it is coöperatively or privately owned.

The common method of operation is for the wagons or trucks to gather the packages from the stores and bring them to a central depot where they are sorted according to routes. Each driver then takes the packages for his route, delivers them, and returns to the depot with his delivery coupons, collections, and empty containers. A few systems operate on a store-routing plan, under which each driver calls at each store and picks up packages for his route. It would seem that this method would only be practical in small towns. Most central delivery systems make three or four deliveries daily, and five or six on Saturdays. All deliveries should be made by

the central system. In some cases the merchants have used their sales clerks, or small boys, to deliver packages to nearby addresses or during dull periods. Such practices threaten the success of the central system, as it takes from them the profitable close-in business and allows its equipment to stand idle during dull periods. Dealers should also refuse to make special deliveries with their own employees, as such a practice once started may defeat the purpose of the central system.

Most systems make a flat charge for each package delivered under a certain weight, extra charges being made for large packages. Under this method coupons are attached to the packages by the dealers. These are collected by the drivers and form the basis of an accounting with the dealers. In order to prevent the merchants from making a part of their own deliveries, a flat rate is sometimes made in proportion to the total number of deliveries made for each dealer, or to the total volume of business transacted by each dealer.

Central delivery systems are said to reduce the cost of delivering goods by an average of 50 per cent, as only about one-half as many delivery wagons and trucks are needed. A report from 22 systems showed a saving of 69 per cent in man power. Aside from monetary savings there are other advantages, such as: relief to the dealers from the trouble of operating their own delivery systems; a knowledge of the cost of delivery in advance; better satisfied customers, owing to more frequent and more regular deliveries; relief from demands for special deliveries once the consumers have become accustomed to the system, as they know the schedule of the drivers and realize that they cannot receive goods from any dealer unless their orders are in on time. Two disadvantages are sometimes advanced against the system. First, that the merchant loses sales which could be made by solicitation of orders by the drivers; and second, that all merchants are on the same basis, so that it is impossible for a merchant to secure business by excelling his competitors in the delivery service rendered. The reader can judge for himself the weight that should be attached to these objections. In answer to the first, some central delivery companies allow the drivers to receive but not to solicit orders for the dealers.

Central delivery systems are rather common in smaller Middle Western cities with populations ranging from 5,000 to

50,000. It would seem that the advantages of such systems would lead to their more widespread use in the smaller cities. Such systems, however, are under the handicap that always accompanies the organization and operation of a coöperative enterprise. Central delivery systems would also be practical in large cities for outlying deliveries for large downtown stores; for smaller downtown stores; and for the merchants in the outlying or neighborhood business districts.[7]

Coöperation on credit.—Many manufacturers and dealers coöperate in collecting and exchanging credit information. The credit-men's associations are well organized in many cities and towns. Their work helps to increase the sale of goods on credit and at the same time reduces the losses from bad debts. An active credit organization among the retail dealers of a small city or town can make it very difficult for persons who do not pay their debts to buy goods on credit. The subject of credit associations is too big a one to be discussed in a book of this nature.

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Many of the State experiment stations have published bulletins on coöperative marketing enterprises.

Several papers are published by organizations interested in furthering the movement. Among such papers might be mentioned: *The American Coöperative Journal,* published by the American Coöperative Publishing Company, Chicago; *Co-operation,* published by the Coöperative League of America, New York; *The National Coöperative News,* published by the National Coöperative Association, Chicago; and *The Pacific Coöperator,* published by the Pacific Co-operative League, San Francisco.

[7] A large part of this material on central delivery systems was obtained from a bulletin published in 1918 by the Commercial Economy Board of the Council of National Defense: "Economy in Retail Service," and from a report by A. H. Andrews, Executive Secretary of the New Bedford (Mass.) Board of Commerce. Dealers who contemplate starting a coöperative delivery system should obtain the material available through the United States Chamber of Commerce.

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Questions—Chapter XX

1. What is meant by coöperation? What are the different kinds of coöperative enterprises?

2. What are the principles of the Rochdale plan? Are these principles necessary to the success of a coöperative store?

3. Why have so many coöperative stores failed in the United States? When successful, what advantages do they offer their members?

4. Why have coöperative stores been more successful in Europe than in the United States?

5. A group of local labor unions propose to start a coöperative store. What facts should be ascertained before such a store is opened?

What policies should be followed to ensure the successful operation of such a store?

6. The faculty of an urban university of 5,000 students desires to engage in some form of coöperative buying in order to reduce the cost of living? What are the schemes that should be considered? Which scheme offers the greatest opportunity for saving? Which would be most likely to be successful? Could such schemes be extended to the students? If so, how would the students benefit?

7. Would it be practical for the retail hardware dealers of a city of 200,000 people to operate their own wholesale house? Discuss.

8. What savings could the dealers in a town of 50,000 people realize from a coöperative delivery system? Why have so many such systems failed?

9. The department stores in a large Western city have all their small packages delivered by parcels post. They report a substantial saving in delivery expenses. What are the advantages and disadvantages of such parcel post deliveries?

Chapter XXI

CO-OPERATIVE MARKETING *(Continued)*

Coöperative Marketing of Farm Products

Coöperative marketing organizations among farmers have been the most successful of any form of coöperative enterprise in the United States. Such organizations have grown until there are at present 14,000 of them, marketing some 10 per cent of the total farm products sold by our farmers.

Origin.—The Grange (Patrons of Husbandry) was one of the earliest organizations instrumental in starting coöperative marketing enterprises among farmers. During the period from 1869 to 1876 the granges started many coöperative marketing organizations—purchasing agencies, stores, grain elevators, creameries, grist mills, factories, and also banks and insurance companies. It will be remembered that Montgomery, Ward & Company was started as a mail-order house to supply the local granges. The purchasing agencies and stores generally failed, but they failed partly because they succeeded in bringing prices down. Other stores had to reduce prices to meet the competition. Sewing machines, for exampl,e were reduced from $120 and $125 to $70. The grain elevators were in most cases sold to one or two members to be operated as profit-making enterprises. The factories succeeded fairly well in production, but failed absolutely in the marketing of their products. The creameries, grist mills, and live-stock shipping association succeeded in some cases.

Many other organizations have been instrumental in starting farmers' coöperative marketing enterprises, which space forbids mentioning. Those enterprises that have succeeded have generally been organized to meet a real need. Poor or inadequate marketing facilities have sometimes driven the growers to provide their own marketing machinery. Coöperative associations organized by outsiders have generally failed. Companies selling supplies and machinery have often organized coöperative concerns which generally have been unsuccessful.

Coöperative enterprises have often failed because of a lack of loyalty on the part of the members, inefficient management, or because the volume of business has been too small. In spite of the many failures the movement has grown, until such organizations market a very considerable part of our farm products. It is significant that coöperative selling organizations have been successful more frequently than coöperative buying organizations.

Present status.—There are about 14,000 farmers' coöperative organizations in the United States, which, according to an estimate of the Secretary of Agriculture, marketed $1,500,000,000 worth of products in 1919.

According to the United States Census, the farmers sold only $722,000,000 worth of products through coöperative organizations in this year. The author, however, is inclined to accept the estimate of the Secretary of Agriculture as being more accurate than the census figures. Coöperative organizations are found in practically every agricultural section of the United States. They are especially important in the sale of citrus and deciduous fruits, milk, butter and cheese, grain, live stock, cotton, tobacco, nuts, vegetables, eggs, and wool. It has been estimated that they now market three-fourths of the citrus fruits, one-half of the milk and butter, nearly one-half of the grain reaching central markets, one-fourth of the live stock, nearly one-third of the cotton, and over three-fourths of the tobacco.[1]

A few specific facts will help the reader to grasp the importance of coöperative associations in marketing farm products. The California Fruit Growers' Exchange during the year ending October 31, 1921, shipped 43,592 carloads of citrus fruit worth $61,000,000 to its members in California. This was 72.5 per cent of all California citrus fruit shipped during the year. The State's total shipments of citrus fruit were said to be worth $83,500,000 in California, $128,000,000 in Eastern wholesale markets, $146,000,000 to the retailers, and $204,000,000 to the consumers.[2]

The Federated Fruit and Vegetable Growers which took over the business of the Northwestern Fruit Exchange at the beginning of 1923 as a nucleus, has 130 member associations

[1]Harlan Smith writing in the *J. Walter Thompson News Bulletin.*
[2]Annual report quoted in the *Journal of Commerce,* December 17, 1921.

in various parts of the country whose members produce various kinds of fruit and vegetables. Some member associations have as many as 20 or 30 locals and several thousand individual members.[3] This organization expects to market over 100,000 cars of fruits and vegetables annually.

The American Cotton Growers' Exchange, a federation of 13 coöperative State associations, is said to have nearly 250,000 farmer members. In the season 1922-1923, 800,000 bales were marketed by coöperative associations.

The Sun Maid Raisin Growers have 14,000 raisin growers as members, and control over 90 per cent of the California raisin crop. The California Prune and Apricot Growers' Association controls 75 per cent of the apricot acreage in California. The Wisconsin Cheese Producers' Federation has six warehouses, and marketed 18,750,000 pounds of cheese in 1922. There are said to be some 4,000 coöperative live-stock shipping associations in the country.

The Burley Tobacco Growers' Coöperative Association has been organized in Kentucky, and is said to have 83,000 members raising 188,000,000 pounds of tobacco.[4] This is said to represent over 90 per cent of the tobacco produced in Kentucky.

There are some 5,000 coöperative grain elevators and warehouses in the country with some 600,000 members. These elevators are said to market about one-half of all grain sold by the farmers. The United States Grain Growers, Inc., is a federation of several grain-marketing organizations. The coöperatives are establishing their terminal selling houses and have had a law passed by Congress requiring the produce exchanges to admit coöperative houses to membership.

The peanut growers of Virginia and North Carolina were organized early in 1921 and secured 5,100 members producing over one-half of the peanuts grown in these States, or from 1,500,000 to 2,000,000 bags. The first year the association experienced great difficulty in cleaning and selling the crop, but changed its management and continued in business.

Objects.—The objects of the farmers' coöperative marketing organizations are to secure higher prices for the farmers'

[3] *Journal of Commerce*, April 28, 1923.

[4] Aaron Sapiro quoted in the *New York Times* of June 3, 1923.

products and to develop better and more dependable outlets for them. To accomplish these results the organizations often try to increase the efficiency of marketing machinery, to build up outlets for their products, to shorten trade channels, to take over and operate a part of the marketing machinery, to advertise their products and to find new uses for them, to store the products and feed the markets regularly, to standardize and grade the products handled, to improve the quality of their products, to collect and distribute market information, and to advise their members what to grow and how to grow it. Many organizations also purchase goods to distribute to their members.

These organizations attempt to secure a division of labor. They recognize that the farmer knows more about production than about marketing; that he often does not know how, when or where to sell; and if left to dispose of his own products he may be the victim of a system which he does not understand and is powerless to change. The coöperative organization relieves the farmers of the marketing function. By its larger volume of business, and its ability to employ experts and concentrate on marketing problems often enables it to market the farmers' products to much better advantage than the farmers can while acting individually.

The objects of the farmers' coöperative marketing organizations have in nearly all cases been practical rather than theoretical, idealistic or utopian. They recognize the necessity of retaining the motive of self-interest. Many of these organizations are willing to sell directly to consumers' cooperative organizations; but if the consumers do not organize, that is their own fault and no concern of the farmers. In the meantime they work with the established marketing machinery. The California Fruit Growers' Exchange works with 2,500 jobbers and 300,000 retailers in order to increase the consumption of California fruit. In this way they try to have oranges and lemons constantly on sale in the small towns and villages that could be reached in no other way. They want the coöperation of the retailers in displaying and pushing the sale of their products.

Coöperative enterprise the result of necessity.—The growth of many coöperative organizations has been the direct result of the failure or inefficiency of the old marketing

system. The marketing system has very often failed to keep up with the growth of population and the increase of the area over which goods are transported and sold. Prior to the organization of coöperative marketing enterprises, the California orange growers either sold their crop to local buyers or consigned them to Eastern commission merchants. The sale in either way involved considerable risk. Neither the individual grower nor shipper had accurate information as to the supply of oranges in the various Eastern markets. The result was that oranges were often shipped to a glutted market with resultant loss. There were also the risks from transportation and decay which were larger than now, as the methods of handling, packing, and transporting were poorer than at present. The growers also came to believe that the buyers fixed maximum prices and divided territory. The growers who consigned their oranges took all the risks themselves and were subject to exploitation by commission men, sometimes 2,000 to 3,000 miles away. If the oranges arrived in good condition on a day when prices were high, large profits might be realized. If, on the other hand, many oranges were decayed or the market was glutted when the fruit arrived, heavy losses were to be expected. Some growers got from 100 to 200 per cent more than others for the same grade of fruit. Many growers failed to receive enough for their fruit to cover the cost of production. It was such actual conditions as these, and no theories about a more equitable distribution of wealth, that caused the growers to organize.[5]

The development of coöperative grain elevators grew out of the fact that the wheat farmers felt that they were not receiving a fair share of the wholesale price of wheat, and were being exploited by the elevator companies. The farmers, however, were said to be cheated by undergrading. The farmer could get the Chicago or Minneapolis price of No. 2 wheat, but he could not tell whether his wheat was No. 2, 3, or 4. He often took his wheat to the local elevator believing it was of No. 2 or 3 grade, only to be told by the elevator that it was No. 4 or No. 5. It is claimed that the grain was often of better quality than was paid for by the local buyers. The farmers have greater confidence in the honesty of their own employees, and if there is a general undergrading

[5]Cumberland, Wm. W.: "Coöperative Marketing," ch. 3.

it will be partly made up by dividends at the end of the year.

Wheat is standardized now and dealt with on organized exchanges so that the farmers may always ascertain the price of a particular grade on a particular day.

It has been said that the farmers receive a higher percentage of the wholesale price for small grains than for any other farm products. Yet they believed the margin to be unjustifiably high; hence the coöperative elevators! The conditions in the sale of live stock, butter, and cheese were somewhat similar, although these products are not as thoroughly standardized as are the small grains.

Methods.—The methods used vary with the products marketed. Most of the coöperative organizations, however, only attempt to place their products on the wholesale markets. California oranges are sold to the wholesale dealers in the consuming markets either through the Association's salesmen or the fruit auctions. The Sun Maid Raisin Growers eliminated brokers, and started in 1921 to sell direct to the wholesale dealers. Potatoes are sold to the wholesalers through the Association's salesmen or brokers. The local buyers or country shippers, and brokers or commission merchants are eliminated, and the trade channel correspondingly shortened. The coöperative grain-marketing organizations are establishing their own selling companies in the primary markets to sell to the millers, exporters, and other large buyers.

Financing.—Financing is an important part of any business enterprise. Many coöperative associations have limited capital and, like many private business enterprises, must depend largely upon borrowed funds to finance their operations. Owing to the limited personal liability of the members, or to limited loanable funds in the sections where located, some associations have experienced difficulty in borrowing adequate working capital. A common method of financing is to place the goods in warehouses and borrow money on them, giving warehouse receipts as security. This money is used to make an initial payment to the growers. As the goods are sold the loans are repaid, and additional payments made to the growers. Some associations have reported no trouble in borrowing from the banks on the security of warehouse receipts. Other associations have reported a dearth of funds from the local banks and have asked for Government assist-

ance. The reason for such a difficulty may be the fact that the goods are poorly graded or of uncertain value, or that the banks are unfamiliar with this method of financing.

The method of financing by the use of warehouse receipts often places the coöperative organizations at a disadvantage in securing goods as compared with other local shippers. The individual local shippers generally pay the full price to the growers in cash. Some growers prefer to sell their products outright for cash, even though they would eventually receive more from the coöperative association. They do not like deferred payments spread over a period of several months and the uncertainty as to what they will amount to. Storage and feeding the markets is often preferable to dumping the entire output on the market in a short period. This cannot be done, of course, with perishable products which must be sold immediately after delivery by the growers. The financing of perishable products is much simpler than of products which must be stored for long periods.

Packing and manufacturing.—Most products are sold in the form in which they are received from the farmers, although some products have to be manufactured. This is true of cheese and butter. The citrus-fruit and raisin-packing houses also resemble manufacturing plants in many ways. The manufacturing process in each of these cases is relatively simple, and is done for the reason that it is impractical for each farmer to provide and operate his own manufacturing or packing plant. The coöperative associations very commonly grade and pack the product of their members.

Pooling.—Most coöperative organizations sell the products for the farmers, although grain may be bought outright by the association, for the reason that the purchase can be covered, or hedged immediately by a sale on a grain exchange. The products may be pooled, or each shipment may be handled and accounted for separately. Under the pooling method the receipts for a certain period are averaged, and each member is paid on the basis of the quantity of each grade or product delivered. In this way no member gets an unusual advantage from an especially favorable sale, nor bears a heavy loss as the result of a poor sale. This is the fairer method and has come into general use. The disadvantage of handling each shipment separately is shown by the following

incident. "A potato association shipped out two cars of potatoes on the same day. One car found a ready market, while the other was sold at a considerably lower price, with the result that the growers having potatoes in the second car received less than the others through no fault of their own."[6]

Standardizing and advertising.—Many coöperative associations have standardized their products and insisted on the product packed by their members measuring up strictly to these standards. This has been notably true of the Far-Western fruit, vegetable, and nut growers. These growers were handicapped by the distance from market and high freight rates. To overcome this disadvantage they placed a highly standardized and neat-appearing product on the market. They have been so successful in this practice that their products have in some instances taken the lead from the cheaper and better flavored, but less standardized, Eastern products. Buyers prefer to handle standardized products because there is less need for inspection, and the danger of "topped off" goods is absent. Consumers prefer the standardized goods because of their better appearance. Many of these associations are very careful as to the color, size, cleanliness, and labels of their products. Growers are held strictly responsible, and goods of inferior quality are not sold under association labels.

Grading is given as one of the important advantages in the coöperative marketing of cotton. The farmers, individually, were at the mercy of the buyers. The association, largely as the result of fair grading, is said to have returned to its members 7 cents a pound more for their cotton in 1922 than was received by non-members. In addition the samples were sold for $60,000, enough to pay the running expenses of the organization.[7]

A good example of the work of coöperatives in improving quality is shown by a comparison of coöperative and private creameries in Minnesota in 1917. The farmers who were coöperators obtained 14 per cent more butterfat per cow than the farmers selling their cream to private creameries. The coöperative creameries evidently made better butter than their competitors, as they received an average of 2 cents

[6]United States Department of Agriculture, "Farmers' Bulletin No. 1144," page 14.

[7]Aaron Sapiro quoted in the *New York Times* of June 3, 1923.

a pound more for it. They manufactured the butter for a cost of ½ cent a pound lower than the private creameries, and paid the farmers 2.6 cents per pound more for their butter-fat.[8]

Many of these associations advertise their products extensively. Some brands of the Western associations have become well-known through such advertising. Among these might be mentioned "Sunkist," "Sunmaid," "Skookum," "Big Y," "Diamond Brand," and "Sunsweet." This advertising is done to increase the demand for the product as a whole, as well as to effect sales over the product of non-member growers. The California Fruit Growers' Exchange, for example, advertises in magazines, newspapers, posters, street cars, trade publications and moving pictures. During 1920, national magazines alone carried its advertisements in 119,000,000 copies.[9] In this connection some of these associations employ specialty salesmen, who go to the jobbers and retailers to stimulate the sale of their products.

The accomplishment of the raisin growers in this connection is noteworthy. They have marketed the crops with so much profit that the output has increased from 130,000,000 pounds in 1913 to 450,000,000 pounds in 1922, and it promises to become 800,000,000 pounds in 1925. To dispose of this increasing output they have advertised the use of raisins for various purposes, notably for raisin bread. They have placed raisins in new containers to meet special needs. The five-cent box disposes of several thousand tons a year to an entirely new class of buyers. The tin container was also introduced to increase sales. They have entered the export market energetically. The quantity of raisins exported from the United States has increased from 16,000,000 pounds in 1913 to 110,000,000 pounds in 1922, and is expected to increase much more in the next few years as the selling company is opening foreign selling offices. The profitable sale of raisins, helped by prohibition, has so increased production, that it is doubtful if the demand in the future can be increased sufficiently to enable the increased output to be sold at a profit to the growers.

A somewhat similar program is being undertaken by the

[8] University of Minnesota *Agricultural Experiment Station Bulletin* 184.

[9] Annual Report of California Fruit Growers' Exchange.

Peanut Growers' Association. It is planned to greatly increase the consumption of peanuts. Peanuts are one of the cheapest and most nutritious of foods. The fact that most people like them is shown by their popularity at ball games and circuses. The Association believes that the reason they are not more widely used is that they are not easily secured by the housewife, and are sold at high prices by the small street and park vendors. It is therefore proposed to pack raw peanuts in pound cartons, and have them sold through the regular grocery channels—brokers, jobbers and retailers—so that they will be available at the corner grocery store. The campaign with necessary advertising was launched in Norfolk in January, 1923.[10]

The work of the raisin and peanut growers is mentioned to show how the coöperative associations are developing markets, how they are advertising, and how they are using merchandising campaigns of the type used by large manufacturers. In other words, some of the associations have become large and are using the methods of big business to market their products.

Purchasing supplies.—Coöperative selling has been much more successful than coöperative buying, but many of these coöperative associations purchase large amounts of supplies for their members. The supplies purchased are generally for use in the production of the crops marketed, such as machinery, implements, boxes, crates, barrels, wrapping-paper, fertilizer, twine, chemicals for spraying, and insecticides; or are articles of considerable importance in the farmer's budgets such as feed, lumber, brick, oil and tires.

Many of the associations also buy dry goods, clothing, shoes, groceries and similar commodities for their members. The total purchases by the farmers through their coöperative associations were reported by the census as nearly $85,000,000 in 1919. More than half of the total amount was purchased by farmers in the West North-Central States, Kansas and Nebraska leading. The census total appears to be too small. For example, the census reported purchases of less than $4,500,000 in California in 1919, while one coöperative organization alone, the California Supply Co., reported supplying the fruit growers of that State with $12,000,000 worth of

[10] *Journal of Commerce*, January 20, 1923.

supplies in 1920. The California Supply Co. was organized by the members of the California Fruit Growers' Exchange as a non-profit coöperative concern to furnish supplies to the members of the Exchange. Many farmers probably failed to keep a record of goods purchased from coöperative organizations, and understated the amounts to the census enumerators.

Organization.—Most of the farmers coöperative marketing associations are democratically controlled, although all of them do not operate on the "one-man one-vote" principle. Some associations are formed with and others without capital stock. As long as the stock is widely held, it makes little difference whether voting is according to men or shares of stock. The danger of allowing one man more than one vote is that it allows a few men to get control of the association and manage it for their own profit. This has been the fate of many coöperative enterprises. To prevent this it is common for organizations having capital stock to allow only one vote to each member, regardless of the number of shares of stock owned, or to limit the number of shares that one person can hold. It is difficult, however, to prevent shares of stock being transferred. For this reason many associations have been organized without capital stock, the members being required to pay a membership fee instead. Elevators and creameries are generally organized with capital stock; fruit, vegetable, and milk producers, and live-stock shipping associations are generally organized without capital stock. The California Fruit Growers' Exchange, The Florida Citrus Exchange, the New England Milk Producers' Association, and the Michigan Potato Growers' Exchange are some of the larger associations organized without capital stock.[11] Some of the organizations ordinarily considered as coöperative associations, perhaps technically should not be so classed. Such capital stock corporations are, however, ordinarily considered as being cooperative organizations when their stocks are widely held by the farmers; and they are so considered here.

Some farmers' coöperative organizations are independent, while others are members of federations. The orange and lemon growers of California are organized into 117 local

[11] United States Department of Agriculture, "Farmers' Bulletin No. 1144," page 16.

associations, which are affiliated into 17 district exchanges and one central exchange. The Nebraska Potato Producers' Sales Association is a federation of the local associations in the State. There seems to be a tendency toward federation, for the reason that a larger organization is in a much better position to market a product than several small organizations.

Accomplishments.—There have been many failures among farmers' coöperative selling organizations owing to inefficient managment, lack of loyalty on the part of the members, or small volume of business. In spite of these failures the movement has grown rapidly. New associations are constantly being formed, so that many of these associations are still young. It is too soon to tell how successful they will be. Many of them will probably fail owing to the adoption of poor business methods, or to internal dissensions. Many of them are likely to succeed and continue in business. The movement may be hurt by its friends and organizers claiming too much for it. The members may be led to expect too much from joining an organization, and when their expectations are not realized they may become dissatisfied and quit. There is nothing miraculous about coöperation. The name is no open sesame to success. Success comes largely from operating efficiency and the following of sound policies. The chief hope of success for many organizations is in operating more efficiently than their competitors.

In order to be successful, a local association should have enough loyal members to give it a large enough volume of business to operate economically. In this membership it should have enough leaders to keep up the morale and to supervise operations. It should have a manager who can conduct its business efficiently, who understands the marketing of the product, and who is able to work harmoniously with all the members. It should be able to keep in touch with market conditions and give its members sound advice on problems of production and marketing. The opportunity of an independent local association is limited. In order to successfully store products and feed the market, to distribute the products evenly over the market, to conduct sales campaigns, and to secure men capable of formulating large production and selling policies requires a large organization. Such organizations—State and National—are often formed by federating a large number of

locals. The locals remain in existence to handle purely local matters, and as instruments to keep individual members in line. The larger organization controls the marketing of the products.

One advantage often gained by any coöperative organizations over their competitors is the acquisition of a larger volume of business. This condition no doubt arises from the fact that competing local coöperative associations are seldom started at the same shipping station, and that fairly large memberships are obtained. The larger volume of business may enable the plant, that is, elevator, creamery, or packing plant, to operate more nearly at its maximum capacity, and thereby somewhat more cheaply.

For the most part these coöperative associations seem to have returned substantial benefits to their members. The successful associations have generally centered their activities on one product or a few closely related products. Where several different products are handled, it seems best to organize separate departments to handle each product.

Benefits have come from the elimination of the middlemen's profits and from increased business efficiency. The growers have benefited from standardization and careful grading of products, from improved methods of growing, packing, and shipping. In most cases the number of middlemen between the farmers and the central markets, where the prices are fixed, has been lessened, and the farmers have derived some benefits from this change. In some cases the savings have been relatively small, amounting to but one, two, or three cents per bushel or dollar; nevertheless, the farmers have felt that they were worth while. It has been estimated that the coöperative elevators in Illinois in marketing 150,000,000 bushels of grain saved their members $3,000,000.[12] This is an average saving of two cents a bushel. The benefits derived of course vary with the product handled and the size and efficiency of the organization. It is to be expected that larger savings could be made with a specialty such as oranges than with a standard product like wheat or butter. The large organization, able to distribute its products to the different markets as occasion demands, and to sell or store its products as

[12] J. W. Coverdale, Secretary of the American Farm Bureau Federation, quoted in the *Journal of Commerce* of July 13, 1920.

seems expedient, should accomplish more for its members than the small association, which is too small to exert a noticeable influence on supply, and which is not in a position to store its products. Non-members often benefit almost as much from the coöperative associations as do the members, for the reason that private buyers must pay prices substantially equal to those realized for their members by the associations, in order to get business. This is an advantage that should not be overlooked.

Low selling expenses.—By concentrating their sales, lower brokerage rates may be obtainable. The brokerage rate on California dried fruit was reduced in the spring of 1920 from 2½ to 1½ per cent. Many of these associations have very low expenses. The Florida Citrus Exchange reported an average cost of 1.3 cents per box during the fiscal year of 1920. The California Fruit Growers' Exchange markets the products of its members at a cost of less than 2 per cent. This organization is considered by many as the most successful of the farmers' coöperative marketing organizations. The accomplishments of this organization may be enumerated as follows: reducing selling expenses from 7 to 10 per cent (commission) to less than 3 per cent; reducing losses from bad debts to 1/1300 of one per cent, the brokers formerly charging 5 per cent for guaranteeing payment of accounts; reducing packing costs from 50 cents to 30 cents per box (pre-war) by eliminating profits, working the plant steadily, and by coöperative purchase of supplies; improving the product and methods of packing; securing lower railroad rates and better payment of damage claims; and increasing the demand for California fruit by seeking out smaller markets, advertising, extending the season the year around, and securing coöperation from wholesalers and retailers. From 1894-95 to 1913-14, the production of California oranges increased 580 per cent, while the population of the country increased only 56 to 57 per cent. In spite of this fact the growers sold their fruit at a profit in 1913-1914, while many of them were losing money in the early 90's. This probably represents the greatest accomplishments of the organization. The actual money saving from 1894 to 1916 is given by Cumberland at $34,200,000 on 228,000,000 boxes of fruit. The growers who are not members of the organization are benefited by it, as private buyers must meet

the Exchanges' prices in order to secure fruit.[13] Although all associations cannot hope to do this much for their members, this shows what can be done by a large, efficient, coöperative organization marketing an agricultural specialty.

Danger of monopoly.—Farmers' coöperative organizations, together with labor unions, are exempted from the price-fixing provisions of our anti-trust laws on the theory that the individual farmer, or laborer, is at a disadvantage in the sale of his product or labor. This may be an equitable provision as long as the farmers' organizations do not themselves become monopolies. When these organizations gain control of a very large part of a given product it is hard, however, to see why they should not be either subjected to government regulations or dissolved. There appears to be no reason why such an organization cannot secure a monopoly of a commodity all of which is produced in one locality. In fact some of the California associations have obtained monopolies of certain products, notably raisins. The California Fruit Growers' Exchange has a virtual monopoly of the California oranges and lemons, but is prevented from controlling the market by competition with Florida and imported fruit. This suggests the possibility of the California and Florida associations combining. A combination of the California and Oregon associations would give virtual control of the domestic supply of prunes. English walnuts, lima beans and almonds are other products that might be monopolized. The buyers have voiced their disapproval of the monopolistic tendencies and have talked of increased imports from abroad. The associations have responded with a demand for increased tariffs on imports. The mere fact that these associations are composed of farmers, would not seem to justify monopolistic activities carried on by them under legal protection. When such associations become monopolies they should be dissolved under the anti-trust laws, or their activities should be subjected to Government supervision. The latter appears to many to be the preferable procedure.[14]

[13]Cumberland, Wm. W.: "Coöperative Marketing," ch. 9.

[14]*The American Coöperative Journal*, commenting on the activities of the California associations said: "The California coöperators do not 'fix prices.' They simply are efficient agencies to get the best prices that the consuming market affords."—December, 1920, page 34. This is all any monopoly selling a widely used product can do.

The raisin trust. —The California Associated Raisin Co. for many years controlled approximately 88 per cent of the raisin crop of the United States. This company was not strictly speaking a farmers' coöperative association, but for all practical purposes was so considered. Conditions among the growers were admittedly bad prior to the organization of the Raisin Co. in 1913. "The raisin growers were virtually at the mercy of those engaged in packing and selling raisins . . . (who) secured to themselves the large profit, while the growers frequently failed to realize the cost of production." The Associated Raisin Co. is admitted to have benefited the growers materially, but it has been accused of being a monopoly, of charging unreasonable prices, and of pursuing unfair practices. The Federal Trade Commission made an investigation of the operations of this company for the Federal Department of Justice and reported: "Our conclusion is that the price fixed by the Raisin Company for the 1919 crop was in excess of a fair and reasonable price." The price fixed for 1920 was considerably in excess of the 1919 price. The company has also made a contract with another corporation "contemplating the fixing of prices, an exclusive dealing clause and involved price discriminations against other independent packers. The contract also involved a guarantee . . . against decline in price." These provisions "practically completed the elimination of the (California) Packing Corporation as a competitor." The Company has also advocated a curtailment of production in order to stimulate price.[15]

The Association was reorganized on a coöperative basis, the new organization being called the Sun-Maid Raisin Growers' Association of California. It controls some 90 per cent of the output. It has continued the policy of advertising and sales promotion, but as pointed out above, the production of raisins may increase faster than new markets can be developed. This illustrates the difficulty of maintaining a high price without limiting production. The high price stimulates production, and this increased production when new vineyards come into bearing may mean very low prices.

This reference to the Raisin Association is introduced to show that there is no reason to suppose that a monopoly of

[15]Report of Federal Trade Commission to the United States Department of Justice, June 8, 1920.

farmers would be any more beneficent than a monopoly of manufacturers, railroad operators, or dealers.

If farmers want to effectively maintain high monopoly prices over a period of years they must devise a method of controlling production. Some think that this may be possible under the long-term contracts now being entered into between certain coöperative associations and their members. These contracts cover a period of years, perhaps five, and obligate the members to market all of their products covered by the contracts, through the Association. A member cannot legally sell to outsiders; and to do so secretly, in case such sales are profitable, is difficult as neighbor members object to this advantage being obtained over them. The association which has a monopoly of a non-perishable product, may place the product in warehouses and sell only at prices fixed by itself. When large stocks have accumulated, members would be forced to curtail production as their goods would only be stored to be sold at some time in the future. In such a case there would be a strong temptation to sell secretly to outsiders. A much more serious danger to such a scheme is increased production by non-members, if prices are high enough to make production profitable. The members would also be inclined to drop out as their contracts expired. The production by outsiders might break the price fixed by the association and spoil the whole scheme. This illustrates the difficulty of limiting production in order to maintain arbitrarily high prices. Regardless of the feasibility of such a scheme, however, nearly all impartial students of the coöperative movement agree that attempts at monopolistic price control are unwise. They may lead to restrictive legislation and they may so curtail demand as to injure the industry for many years. The feeling generally is that coöperative associations can perform the greatest usefulness by concentrating their activities on the efficiency of operation, the elimination of wastes, the making of market analyses, and the development of demand by advertising, improvement of quality and sales promotion.

Advantages and disadvantages.— In conclusion we may summarize the advantages and disadvantages of a farmers' coöperative association to the farmer members, to the consumers, and in competing with rival marketing organizations.

The chief advantages of such an organization to the

farmer members are: higher prices for their products, owing to pooling, reduction of marketing expenses, improvement of quality, or stimulation of demand; advice as to what to plant and when to sell; pressure to produce and pack better goods; lower prices on purchases; and perhaps favorable returns on the stock owned in the associations. There are few disadvantages to membership in successful concerns, except the delayed payments when goods are stored, payment being made only as the goods are sold. When unsuccessful membership in such concerns may involve lower prices for products (especially when long-term contracts prevent withdrawal), poor advice as to production and marketing; limitation on right to sell when and how farmer thinks best; and perhaps a loss of money invested in the associations' stocks.

To consumers the coöperative organization may give better products, better graded, packed, and handled; a more even supply the year round; a more even distribution of the product over the country; a greater uniformity of prices because of storage and the more even distribution of the products; and perhaps in some cases lower prices resulting from more efficient marketing machinery, or lowered costs of production. The chief disadvantage to the consumers is the danger of high prices resulting from monopoly control.

In competing with marketing concerns operated for profit, the coöperative associations often meet with various difficulties: the refusal of other concerns to handle their products or sell them supplies; the difficulty of securing coöperation and interest from all members at all times; the jealousy of rival factions or leaders; propaganda from leaders who make extravagant claims and lead the members to expect too much from the associations; bad advice from false friends; and last, but not least, the difficulty of securing efficient management. Such concerns must be managed by hired employees who lack the incentive of private profit, who must try to please all members, and who perhaps receive poor support from the members. When once in successful operation, such associations may have two advantages over competitors: first, a larger volume of business permitting of more economical operation; and second, ability to pay the farmers more for their products. The difficulties of the coöperative associations indicate the advantages of their competitors, and vice versa.

Questions—Chapter XXI

1. Why have the farmers' coöperative selling organizations been more generally successful than the coöperative stores?

2. When farmers' coöperative marketing organizations threaten to become monopolies should they be dissolved, regulated by the Federal Government, or allowed a free hand in marketing their product? Why?

3. The potato growers in a Tennessee county desire information about the desirability of forming a coöperative organization for the sale of their potatoes. The county now has several cars for export each year and could easily increase its output 1,000 per cent if the potatoes could be successfully marketed. What could the farmers expect of such an organization? Would you advise its organization? If organized how should it be managed? How should the manager go about marketing the potatoes? (See U. S. Department of Agriculture, "Farmers' Bulletin No. 1144.")

4. What may the farmers expect from successful local coöperative associations? What other advantages may they expect from large national organizations?

5. What are the advantages and disadvantages of long-term contracts obligating the members to market all their products through the association?

6. What are the essentials for success in the operation of a farmers' coöperative association?

7. Several coöperative associations have advertised their products extensively, employed specialty salesmen to call on the retailers and push the sale of their products, and tried in other ways to increase the consumption of their products. What results may be expected from such efforts? What is the limitation on such efforts when applied to different foodstuffs?

8. A West Virginia county, at an altitude of some 1,900 feet, has a great deal of acid meadow land. This land, without heavy applications of lime, yields very poor crops. Such applications are expensive and greatly reduce the profits. One suggestion is that the land be planted in cranberries or some other crop adapted to acid soils. Assuming that experiments have demonstrated that cranberries can be grown successfully, how would you go about establishing the industry? The farmers must be taught how to grow the new crop. Capital is also needed. An outlet must be developed for the new crop. What would be the best way to develop a demand for these berries and to get them to the city markets?

Chapter XXII

TRADE ASSOCIATIONS

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. . . . Though the law cannot hinder people of the same trade from sometimes assembling together it ought to do nothing to facilitate such assemblies, much less to render them necessary."—Adam Smith: "The Wealth of Nations."

"Any collective activity can be used as a cloak for conspiracy against public interest, as can any meeting of men engaged in business, but it does not follow, because bricks have been used for murder that we should prohibit bricks."—Herbert Hoover, Secretary of Commerce, Annual Report, 1922

Another form of coöperative organization that has become very important in recent years is the trade association. The trade association is an organization of producers or distributors engaged in the same trade, or line of business, formed for the purpose of furthering the interests of its members, or of the trade as a whole. Not all organizations of business men are trade associations. Local organizations, such as chambers of commerce and boards of trade, are composed of men in different trades or industries. The aim of such local organizations generally is to promote the interest of some community rather than that of a trade. The local chambers of commerce have a national organization, The Chamber of Commerce of the United States of America, whose object is to promote the interests of business as a whole, especially in the cultivation of public opinion and the passage of laws relating to business. Organizations of farmers, laborers, and professional men are not ordinarily considered as trade associations.

Importance of trade associations.—Persons who have had no contact with trade associations perhaps do not know of their number and variety. Manufacturers of everything from canned peas, from flour to optical instruments, from metal lath to salt, from asbestos textile to leather belting, and from boots and shoes to farm implements have their organizations. There are associations of manufacturers, mine operators,

wholesalers, brokers, retailers, railroads, undertakers and warehousemen.[1] The statement has been made that some men attend so many meetings that their business suffers. Some large concerns have officials who spend a large part of their time attending various meetings and delivering pertinent speeches.

An estimate made a few years ago placed the number of business associations in the United States at 3,500, of which 1,000 were important. A report of the Bureau of Foreign and Domestic Commerce on Commercial and Industrial Organizations in the United States, lists approximately 11,000 international, national, sectional, State and local commercial and industrial organizations in the United States. This list includes many organizations of professional men and farmers, and many commercial bodies, such as chambers of commerce, boards of trade and commercial clubs, which do not come within our definition of trade associations. A report on Trade Association activities by the Department of Commerce lists more than a thousand organizations, of which some 750 come within our definition of trade associations. It does not, however, list the local trade associations, of which there are hundreds.

The membership varies from five in the case of the Association of Creosoting Companies of the Pacific Coast, to 40,000 in the case of the National Association of Retail Grocers of the United States.

Types of organizations.—Trade associations may be local, State, sectional, or national. In some industries the local or State associations may be federated into national associations. This is true for example of the State millers' associations which coöperate through the Millers' National Federation and the State and sectional vehicle associations which are federated into the National Federation of Implement and Vehicle Dealers' Associations. In some industries the State and local associations are not affiliated with the national association, the local associations devoting their attention to local matters, and the national associations to matters relating to interstate, or foreign commerce or to the industry as a whole. In such cases

[1]For the names of typical Associations see Department of Commerce, Bureau of Foreign and Domestic Commerce, Miscl. Series No. 99, "Commercial and Industrial Organizations of the United States."

there is likely to be a good deal of duplication of work. Some trade associations cover only highly specialized fields. This is true for example of The American Faced Brick Association, the Asbestos Brake Lining Association, or the Minced Razor Clam Packers' Association. Other associations cover a much broader field. In such cases the association may be divided into sections to permit more detailed attention to the interests of the various members. The National Canners' Association, for example, has the following sections: Corn, Pea, Tomato, Fruit, Wax and Refugee Bean, Kraut, Shrimp, Molasses and Sirup, Sardines, and Home Economics.

Activities.—There is a good deal of difference in the activities of different associations. The work of the retail grocers association of a small city naturally differs considerably from the work of a national association of large manufacturers. There is a good deal of similarity, however, in the work of many of these associations. Some of the more common activities of the trade associations are the following: improvement of methods of production, education of members as to plant efficiency, accounting methods, and so forth; standardization of products; obtaining legislation favorable to the industry; adoption of a uniform sales contract; agreeing upon uniform terms of sale, such as prices, discounts, guarantee, delivery and credit; securing favorable freight classification and rates for their products; adoption of uniform accounting methods; cooperation in checking up the credit standing of buyers; increasing the demand for their products by advertising; gathering and distributing of information of interest to the trade, such for example as figures showing the production and sale of the product; securing newspaper publicity favorable to the industry; consideration of working conditions and wages; cooperation in the foreign sale of their products; coöperation in the purchase of supplies; coöperation on insurance; and social activities such as banquets and theatre parties.

Some trade associations do little except hold periodical conventions at which speeches are made upon topics of interest to the members. Other associations are very active, with highly-paid secretaries and attorneys; and besides holding conventions may operate experimental laboratories, carry on advertising campaigns, gather and tabulate statistics, and carry on price-fixing activities.

Activities having to do with production, such as the discussion of factory processes, the wages of factory workers and the introduction of new machinery, do not concern us here. A very large part of the activities of most trade associations, however, has to do with some phase of marketing. Standardization of products, adoption of uniform sales contracts, cooperation of credit departments, advertising of products, gathering of market information and fixing of prices are primarily marketing problems. Some of the activities relating to marketing are described in the following paragraphs.

Standardization of product.—The adoption of fair and uniform standards to be observed by an industry is highly desirable. Many trade associations have been active in this work. The National Canners' Association, for example, to promote the consumption of canned foods, has adopted a system of inspection of its own, in spite of the fact that the goods must conform to the federal pure food law, and that many of the States have factory inspectors to see that the goods are canned under sanitary conditions. This inspection system is conducted in connection with an elaborate advertising campaign. The acceptance of the association's inspection system by the individual canners is voluntary. One weakness of standards adopted by trade associations is that they must depend very largely upon persuasion or public opinion for their enforcement. The association may expel an offending member, but cannot force a non-member to produce a standard product. If non-members refuse to observe the standards, about all that the association can do legally is to ask for legislation making the standards compulsory.

The manufacturers of farm implements have done much to simplify the sizes, styles and equipment of various implements. There always has been a great variation in the types of implements made by manufacturers. In 1910 an official of a large plow company estimated that his concern was making 2,000 different styles of plow bottoms. A manufacturer of farm wagons stated that, prior to simplification, some factories made as many as 1,260 sizes and styles of farm wagons.[2] Such variation in sizes and types is especially expensive to the manufacturers, as they must carry repair parts or patterns from which

[2]Bureau of Corporations: "Report on Farm Machinery Trade Associations," page 14, and *System*, December, 1921.

parts can be made for all implements. Orders for repair parts may be received 30 years after the manufacture of a particular implement has ceased, for the older the implement the more likely it is to break. The carrying of such repairs ties up capital and requires space. If no parts are in stock and a few castings are made from the patterns, the expense is likely to be much above the price of the part. A good deal of variation is necessary, because of the differences in soil, topography and crops in different sections. Yet there is no need for the large variety of styles and sizes that have been produced. The farmers want the size or style of implement that they have been accustomed to, when in many cases standard implements would serve their purposes equally as well. Yet, so long as the farmers think they need an odd size, it is hard for any one manufacturer to stop producing odd sizes. Coöperation is necessary to secure simplification, which should result in benefit to the farmers as well as to the manufacturers.

As early as 1904 the National Wagon Manufacturers' Association took up the subject of standardization, or simplification, of wagons, such as height of wheels, type of hounds and tires. The various associations of implement manufacturers have been active in trying to adopt standard implements. The movement received a great impetus during the War, when the Commercial Economy Board of the Council of National Defense and its successor, the Conservation Division of the War Industries Board, urged that all unnecessary sizes and types of implements be eliminated. In November, 1918, the executive committee of the National Implement and Vehicle Association, of which nearly all manufacturers of farm implements are members, adopted a resolution to make all wartime eliminations permanent.[3]

Objects of standardization.—The objects of standardization may be to reduce manufacturing costs, to increase sales, or to form the basis of price agreements. It is impossible to adopt uniform prices without some uniformity in the articles, for the simple reason that prices would mean nothing unless they referred to similar goods. In conducting cost studies, to be described later, it is necessary that standard articles be considered, for otherwise the costs would not be comparable.

[3]Federal Trade Commission: "Causes of High Prices of Farm Implements," page 308.

The reduction of costs is highly desirable; the increase of sales is perfectly legitimate; but the fixing of prices is, under the present law, illegal.

Co-operation on credit.—Coöperation of business concerns in gathering information as to the credit rating of buyers, of preventing dishonest persons from securing goods under false pretences, or prosecuting swindlers, and protecting themselves in other ways from losses from uncollectible accounts, is frequently carried out through trade associations. Associations of wholesome dealers, retail dealers, and manufacturers often devote some attention to such matters. The secretary of the association upon the request of a member may ask other members for their experience with a certain customer. Very often, however, separate credit associations are organized which do not observe trade lines, but have members from different trades and industries.

Advertising and publicity.—Some trade associations carry on advertising campaigns to increase the sale of the products of their members. This coöperative advertising is cheaper than separate advertising by each member. Such advertising may increase the sale of products like canned foods, white pine, plate glass, lead pipes, paint, or bicycles, but it does not promote the sale of any individual's product over that of his competitors. It is employed, however, by sellers of competitive brands to do the pioneering, or educational, work of selling the idea. It would seem that such advertising would be used much more widely than at present, especially by concerns selling unbranded goods. Many associations give information to the newspapers which favor their industries. Such information may attempt to justify increased prices, to point out new uses of the product, or to deny stories which are injurious to the product.

Prices.—Of all activities of trade associations, those relating to prices have attracted the most attention. Price is of absorbing interest and of great importance to all business men. Often no other subject will induce men to lay aside their jealousies and coöperate with their competitors. Under the present laws, practically any kind of price agreement among competitors is illegal. The Federal laws relate to all persons engaged in interstate commerce, and there are very few except the smallest business concerns that are not so engaged. Even

the smallest retailers often buy a part of their goods in other States, although this in itself might not be held to give the Federal Government power to regulate their acts in the sale of goods. Many States also have laws against price-fixing in intra-state commerce, although these laws are often laxly enforced. In spite of the laws, the members of many trade associations engage in price-fixing activities. These activities are either secret, or are done in some round-about or indirect way in the attempt to avoid prosecution.

Old methods of price-fixing.—Prior to the passage of the Sherman Anti-trust Law in 1890, business men often met and agreed upon the prices of their products directly, and often without much attempt at secrecy. These simple agreements were commonly called "gentlemen's agreements," as they depended solely upon the promises or "honor" of the participating parties for their fulfillment. It often turned out, however, that some of the parties to such agreements were not "gentlemen," and did not adhere to the agreed prices. Thus, if there were six parties to such an agreement, five might adhere to the agreed prices conscientiously; while the sixth, by quietly cutting the price, might get a large part of the business before the others realized what was going on. In order to prevent such practices, various schemes were provided to force all contracting parties to maintain the agreed prices. The pool was often used, especially by the railroads through their traffic associations. One form of pool provided that all members should turn over to the treasurer, or pool manager, a given percentage of their receipts. This money was distributed at stated periods in accordance with agreed percentages to all members who had observed the rules. Another method was a division of the territory among the members of the organization. Under such a plan each member would sell his goods only in an agreed territory, and higher prices were to be quoted to any inquirers from outside his territory. In the case of railroads the traffic might be divided according to agreed percentages.

With the enforcement of the Sherman Law, such practices had to be abandoned or carried on secretly. Some have argued that the prohibition of price agreements was one of the causes for the large number of consolidations formed in the years around 1900. It was illegal for six competitors to agree on

selling prices, but if the six consolidated their businesses into one company there was no agreement of competitors as the new company named prices for its six plants. After the courts started dissolving such consolidations or "trusts," the interest in price-fixing agreements seems to have been stimulated.

Increased activity in fixing prices as a result of the War.— During the War, especially during 1916 and 1917, prices were rising very rapidly. Manufacturers who sold goods for future delivery were at a loss to know what the goods would finally cost when ready for delivery. Raw materials were advancing rapidly, and wages might have to be raised overnight. As a result, many manufacturers were at sea when it came to naming future prices. They set to work estimating or guessing at what their costs would be. They consulted each other and called meetings to discuss future costs, sales and prices. If they made their prices too low, serious losses might follow. If they made them too high the buyers might balk. They had no time to feel out the demand. As a result of this, there was a great increase in the price-fixing activities of old trade associations.

In the latter part of 1917 and most of 1918, the national Government was active in fixing prices. Producers were called together and prices were agreed upon, or fixed upon the basis of reports of accountants as to the costs of production. Hearings were held on the cost data obtained by the accountants; and the industry affected had the right to be heard, and present its idea of what prices should be fixed. The Government could not deal with individual producers. Organizations were necessary, and industries that had not been organized were practically forced to form trade associations to represent their interests at Washington. The members of many of these associations entered into price agreements, at least tacitly. The defence was that the Government expected them to fix prices and that those were unusual times when ordinary rules did not apply. In presenting their cases to the various government boards, uniform demands were advisable so that agreements were almost necessary. Also, the Department of Justice showed no disposition to prosecute persons for price-fixing activities.

It should also be borne in mind in considering the price-fixing activities of trade associations during the war period,

that it is much easier to make and keep such agreements when prices are rising than when they are falling.

Recent methods of price-fixing.—Three recent methods tending toward uniformity of prices, if not actually to price-fixing, are gentlemen's agreements, open price associations, and a discussion of the costs of productions.

Gentlemen's agreements.—Gentlemen's agreements are by no means a thing of the past as a method of fixing prices. The members of trade associations do not pass definite resolutions fixing prices. However, they often do discuss prices. Such discussion ordinarily is held before the meeting is formally called to order, or after the motion to adjourn is passed, so that no record of the discussion will appear in the secretary's minutes. Yet, occasionally a mention of such discussion will be found in the minutes of some secretary who forgets that his books may be inspected at any time by a government agent. For example, the report of the secretary of a Mid-Western canners' association said of a certain meeting in 1917: "Based on our estimate of such costs, we felt that 90 cents for standard corn was as cheap as we could pack it. . . . Most. . . canners offered goods at that price. There was no collusion or agreement of any kind between packers, but simply a general consensus of opinion that we could not afford to sell it cheaper."[4]

Very often the members simply talk over the subject of prices around the hotel lobbies, around the convention hall, or during meals. No formal agreement is entered into, but very often an understanding is reached, and the members go home knowing what prices their competitors are going to name. The members who have ideas of liberal prices do all they can to induce the members who have ideas of lower prices to raise their prices to a level with those they desire to establish. If the conservatives refuse, the others may have to reduce their proposed prices to meet the latter's prices, or else a compromise is effected. No formal agreement has been made in this case, but the intent to fix prices clearly exists. Any agreements or understandings among competitors fixing prices are, of course, illegal.

Agreements are made also as to the dates when prices will

[4]Federal Trade Commission: "Report on Canned Foods, Vegetables and Fruits," page 86.

be changed, and as to the percentage by which prices shall be increased or decreased. Terms of sale, such as length of credit and amount of cash discount, also may be agreed upon. Agreements as to terms of sale are made openly by some associations, as they do not believe them to be illegal.

Open-price associations and comparisons of prices.—The object of open-price associations and of comparisons of prices by competitors is to enable all members to have full knowledge of the prevailing prices, or of the prices of their competitors, so that they can make their prices "intelligently." In open-price associations, the members usually report the prices received for goods sold, or the prices submitted on bids; and some of the following facts: terms of sale, stocks on hand, volume of production, orders, inquiries, shipments, and cost of production. Such reports are made to the secretary who tabulates the reported prices and distributes the information to all members, or to the members entitled to receive it under the rules. Occasionally the information is given to the press. This was true of the information gathered during 1916 and 1917 by the National Canners' Association.[5] Under the plan used by the Bridge Builders' Structural Society copies of all bids were sent to the secretary, who at once transmitted the information to other members, submitting bids when the copies were unsealed, but if copies of bids were sealed, the prices were not distributed by the secretary until the contract was let.[6]

Price comparisons consist in the exchange of price information by competitors. The members of an association may exchange information as to their prices, or as to their proposed prices. This may be done at a meeting, or different concerns may exchange their prices directly.

The legality of open price associations has been called into question. The American Hardwood Manufacturers' Association, the Gypsum Industries Association (consent decree in Federal district court), and the American Linseed Oil Companies were all held to be in restraint of trade in the operation of open-price associations. It appears that all of these associations went farther than the exchange of information, and

[5]Federal Trade Commission: "Report on Canned Foods, Vegetables, and Fruits," page 81.

[6]Tosdal: "Open Price Associations," *The American Economic Review*, June, 1917, page 342.

engaged in activities that were intended to fix prices, curtail production, or limit competition, all of which are illegal when done by an agreement among competitors. The decisions, however, apparently do not interfere with the tabulation and distribution of trade statistics and past prices if no interpretation or advice is sent with them, if no illegal agreements are entered into, and if all members are free to make what use they see fit of the statistics. The decisions lead one to ask how many of the open-price associations really stop with the tabulation and distribution of statistics? It seems that many of them have been used in an attempt to defeat the anti-trust laws without incurring the penalties. They are often accompanied by price-fixing agreements.[7]

Most of us believe that business men need more information in order to conduct their businesses intelligently and efficiently. The question, however, is raised as to the fairness of giving trade information to the sellers and not to the buyers. It is argued that this gives the sellers an unfair advantage in the negotiation of contracts for the sale of goods. In view of this objection and the fact that open-price associations are often used for illegal purposes, it seems that the best method of distributing trade statistics would be to have the producers report the information to some government bureau, which would tabulate it and release it to all interested parties at the same time. The Government spends large sums of money in gathering and compiling such figures for several farm crops.

The effect of open-price associations on prices is debated.[8] Some argue that unless accompanied by suggested price lists or agreements they are ineffective, since all producers will not send in reports, and others are too ignorant to interpret or act on mere statisical summaries. Others contend that the mere knowledge of competitors' prices will lead to greater uniformity in prices, if not to higher prices.

Following an exchange of price lists by members of the Wisconsin Pea Packers' Association in 1917, it was found that over 95 per cent of the prices quoted by different members for

[7]Of 1515 trade associations answering a questionnaire for the Federal Trade Commission, 799 were non-statistical, 324 distributed trade statistics, but not prices, and 150 distributed or exchanged price information.

[8]For a discussion of the effect of open-price associations on competition and prices, see article under this title by Milton N. Nelson in *American Economics Review*, June, 1923

future delivery were within 5 cents (a dozen) of the secretary's own prices which had been sent to all members.[9]

Sellers naturally want to receive as much as possible for their products. When they know what others are receiving, they naturally dislike to sell for less, especially when their prices are to be reported to their competitors. The agreement to report prices is an incentive for a seller to resist a demand from a buyer for a concession in price. A man doesn't want to be scorned or called "weak-kneed" by his friends. There is no legal obligation on a seller to make his price in line with those of his competitors, but the force of their opinion may be very effective. A member is not bound to submit his prices. The only punishment is the withholding of information as to the prices of others, or expulsion from the association. The temptation is always present for a concern to shade the prevailing price to secure a desirable order; and then either fail to report the sale, or to report it at a price higher than actually received, as, for example, failing to mention a special discount. If such practices become known, other members are likely to take similar action to protect themselves. If such practices become general, the whole scheme is likely to be abandoned. This is why such schemes may operate successfully and help to push prices up when the demand is strong and prices are rising, and then fail altogether in a falling market.

Cost discussions.—There has been a great increase in the interest in cost accounting in recent years, and many trade associations have seized upon cost accounting as a cloak under which they secure price uniformity, or form price agreements. Education in cost accounting is a good thing. All business concerns should know their costs. Uniform accounting methods would be desirable apparently in many industries. Discussion of cost accounting, however, is one thing, and a discussion of costs is another thing. Many trade associations, under the guise of discussing cost accounting, have discussed costs in order to agree upon or determine average or typical costs in production. It is clear that in many cases the cost figures agreed upon in these cost meetings were to be used as selling prices or as the basis of selling prices, members adding reasonable profits to the agreed cost to determine their selling prices. It has

[9]Federal Trade Commission: "Report on Canned Foods, Vegetables, and Fruits," page 87.

been admitted by association officers, and proved by letters published by the Federal Trade Commission, that the object of many of these cost discussions was to determine selling prices, and that the average or typical costs were simply a means to an end.

"It is as clearly a violation of the law to agree upon the cost of an item that constitutes a substantial part of the total cost price, when its cost actually varies, as to agree upon the sales price; because the sales price is substantially affected by such agreement."[10]

The cost figures arrived at are often purely arbitrary or estimated figures. Infrequently are they based on the actual costs of the members. Often the materials are taken at uniform prices submitted by the secretary, which may be the quoted market price, but not the price actually paid by any of the members. Again, cost estimates may be based on a certain output, as so many cases of peas per acre. Since the cost figures are really intended as a basis of future prices, the costs must be estimated, as no actual costs can be determined in advance. This is particularly true during a period when prices, and hence costs, are rising. Average costs, at best, are purely arbitrary, if not entirely meaningless. The members of the association often know nothing of the theory of marginal or bulk-line costs, but their estimates of average costs are often so liberal that they let most of the producers out with a profit, and hence approximate the actual bulk-line cost.

The average or typical cost figures arrived at in these association meetings are often distributed to all members whether present or not, and at times have been sent to all producers whether members of the association or not. One trade association secretary had these cost estimates printed on the back of his letterheads.

The discussion of, or agreement upon costs has been very common in trade associations in recent years. Cost discussions may be accompanied by gentlemen's agreements or understandings as to price, or may be conducted with price exchanges. Undoubtedly they have tended to greater uniformity of prices, and probably have helped also to increase prices.

Many trade associations have entered upon cost discussions with the idea that they were legal. No legal objection can be

[10] *The Nation's Business*, March, 1922.

made to a discussion of accounting forms. Such discussions may go as far as to discuss the percentage of depreciation that should be charged against different types of property and machinery, or to the proper methods of determining and distributing overhead and general expenses. When an association goes from a discussion of cost accounting into a discussion of costs of production, it is, however, on questionable ground. Average or typical cost figures arrived at in such discussions are meaningless, except as a basis of prices. Many, if not all, members understand that the agreed costs are to be made the basis of prices.

Trade-association secretaries generally realize that discussions of prices are dangerous, and so warn their members to speak of "costs," but not to mention "prices." In spite of such continued warnings members frequently use the words "costs" and "prices" interchangeably, showing that prices are really what they are thinking about.

There is no doubt in the writer's mind that many associations have used cost discussions to camouflage price-fixing agreements, that the intent has often been to fix prices, and that if evidence of their activities were presented to the courts, convictions would follow. Referring to cost discussions, the Federal Trade Commission has said: "While it is clearly desirable that each producer should accurately know his own costs, it is very doubtful if any public interest is served by the producers having meetings to discuss each other's costs."[11]

Are price agreements effective?—It may be argued that it is needless to prosecute competitors for agreeing upon prices, for the reason that such agreements are ineffective when the prices agreed upon are unreasonably high. This is said to be true for the reason that if prices are fixed high enough to produce large profits, such large profits will lead to an increased output which can be sold only by reducing prices. In other words, it is contended that a price agreement fixing prices at a highly profitable point will be useless unless accompanied by control of output. This, of course, is true if output can be easily increased. If, however, a price agreement is observed by all parties, it naturally involves a control of output. The members agree not to sell below a certain price. If they keep the agreement they

[11]Federal Trade Commission Report on Canned Foods: "Vegetables and Fruits," page 8.

must limit output to what can be sold at this price. Whether producers, not in the agreement, will break the price, depends upon the number of outside producers, and the ease with which others may enter the industry. In the case of retailing, new men can enter easily and quickly; but with manufacturing, it often requires considerable skill, capital, or the control of raw materials, so that considerable time is necessary for new concerns to become established in the industry. Then, too, there is the possibility of inducing the new producers to become parties to the agreement.

It is argued further that price agreements will be ineffective when the prices are fixed too high, for the reason that the desire to make profitable sales will lead members to violate the agreement and cut prices.[12] Business men sometimes refuse to become parties to such agreements, because they are not adhered to by all members. Thus when such agreements are in force, certain members will secretly cut prices and obtain the bulk of the business, while their more scrupulous brothers, who adhere strictly to the agreement, have their goods left on their hands until the price cutters are sold out. There is no doubt that such practices have at times led to the abandonment of price agreements.

The effectiveness of price agreements depends upon the strength of competition, the number and attitude of the producers, the trend of prices, and the seriousness of price-cutting. It is much easier to get a few men together and hold them in line than to get a large number into such an agreement. Also when price competition has been very keen and many men have been losing money, they are more likely to lay aside their jealousies and form agreements than when prices have been high enough to yield fair profits. Again, such agreements are more likely to be observed when prices are rising and a "seller's market" exists than when prices are falling and the buyers control the situation.

[12] A. B. Farquhar, in "My 64 Years in Business," brings out this idea in the following way: "By some tomfoolery or other, be it open-price association, trade association, or what-not, they solemnly restrict production and hold out for price. They make the price—but nobody buys. They keep right on making the price until one fine morning some intelligent man awakes to the fact that business does not grow out of making prices, but out of selling goods, and the whole house of cards goes crashing. I have seen that happen so many times that I now regard it as one of those events in nature that seem inevitably to happen"—*System*, March, 1921, page 385.

There is no doubt that prices have at times been "boosted" as a result of price agreements. During periods of rising prices such agreements have pushed prices up more rapidly than would have been true under free competition. When prices are falling, price agreements also may retard the decline. It is extremely difficult, to make a general statement as to the effectiveness of price agreements in raising and maintaining prices.

Are price agreements desirable.—It is argued by some that price agreements tend toward the establishing of staple and uniform prices, which are fair to both buyers and sellers. . It is contended that associations of producers or merchants are in a better position than any one else to make prices intelligently. Stable prices are desirable, and it is said that price agreements would prevent both unreasonably low and unreasonably high prices, and so prove fair to both the buyers and the sellers. It is argued that the German cartels, which in many respects resemble our trade associations, were permitted to fix prices and that these prices were fair to the buyers.

It must be admitted that competition has been modified by price agreements, either direct or tacit, entered into in spite of the law. Further restriction of competition has resulted from the growth of large business organizations which dominate various industries. Large organizations, such as the Standard Oil Co., U. S. Steel Corporation, International Harvester Co., the American Can Co., and the American Woolen Co. are potent factors in making prices.[13] The "independents" commonly follow the prices set by their large rivals. Often their position is "we can't get more and we'd be foolish to sell for less." When the market is strong they may go above the prices set by the big concerns, and when the market is weak they may cut the prices slightly; but as a general rule they or-

[13]"The American Woolen Company, leading market factor, opened its staple worsted and woolen suiting and overcoating lines for fall 1924, yesterday, showing prices to be practically on a parity with those of a year ago and fully 10 per cent lower than prices for spring named last July. . . .

"The opening, which had been awaited with keen expectation by the entire trade because of the uncertainty attending it relative to the price policy of the big company, brought hundreds of buyers to the salesrooms of the firm. . . .

"Competing factors of the big company showed disappointment over the prices quoted, having anticipated far greater advances (some few advances were made) and were inclined to the opinion that smaller mills will have difficulty in meeting the prices quoted by the American Woolen Company." —*Journal of Commerce*, Feb. 1, 1924.

dinarily stick pretty close to the prices set by the big companies. It is argued that the government should recognize conditions as they are, and allow the trade associations to fix prices. The United States, however, is not ready to give the associations a free hand. The people do not believe in price agreements. The producers as yet do not fully realize the responsibility of fixing prices, and are not sufficiently imbued with the idea of public service. Many of them do not realize that the largest profits can often be made by large sales at low prices.

It appears that the German cartels often "squeezed" the domestic buyers in order to sell cheaply abroad and so build up their foreign trade. Hence the proposal to allow price agreements to be made under government supervision, the Government exercising a veto on all prices in order to see that the interests of the consumers are protected. Such an arrangement might lead to a government price-fixing, which as yet appears to be of questionable desirability.

The Webb Pomerene law allows competitors to form cooperative associations and fix prices for the export trade under the supervision of the Federal Trade Commission. Up to June 30, 1922, 56 such associations controlling about 1,000 plants had registered with the supervisory body.

Desirability of government-supervised price agreements.— The desirability of government-supervised agreements is questionable. In industries where competition is very keen such agreements would likely benefit the producers. In industries where great concentration has taken place, such agreements probably would benefit the consumers. The Government in all likelihood would use the marginal or the bulk-line theory in determining the fairnesss of prices. When competition is very keen, prices may be lower than the bulk-line cost with resulant loss to high-cost producers. This causes these high-cost producers to lower their costs or to drop out of the industry. Under price-fixing there is less incentive to efficiency, as prices would be set high enough to allow most producers to realize a profit. When competition is limited the prices may be higher than the bulk-line cost. In such cases, government supervision would result in lower prices. It then seems that price-fixing under government supervision is desirable when competition has been largely eliminated either by consolidations or unsupervised agreements as to prices.

Conclusions.—Trade associations can do much that is beneficial. Improvements in manufacturing methods; lowering the costs of production; introduction of better accounting methods; improving the quality of output; improving methods of packing and shipping goods; exchange of credit information and standardizing products—these are all commendable activities. Much good can come from the right kind of coöperation through trade associations. The trouble is that many associations pay too little attention to activities that are legitimate and desirable, and engage in price-fixing activities that are illegal and of doubtful desirability. The suggestion has been made that trade associations be allowed to fix prices under government supervision. Such agreements would apparently be in the interest of the public only when competition is already stifled by price agreements or by consolidations in the industry.

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Questions—Chapter XXII

1. What is a trade association? Do you believe trade associations return benefits to their members commensurate with the time and money spent on them? Why or why not?

2. Enumerate advantages that may come from a well-managed and active association.

3. If you were secretary of a large local association of retail merchants, what activities would you recommend that the association carry on?

4. Under the present law, how far may trade associations go in discussing costs and prices?

5. Do you believe that trade associations should be allowed a free hand in fixing prices? Why or why not?

6. The American Blank Manufacturers' Association has twelve members, while the Interstate Blank Dealers' Association has four thousand members. Which association is most likely to engage in price-fixing? Why?

7. What results would likely follow the legalizing of price-fixing by trade associations under Government supervision? Enumerate probable advantages and disadvantages of such permission. Would such a policy lead to Government fixing of prices?

Chapter XXIII

FAIR COMPETITION

The failure of uncontrolled competition.—Closely associated with the subject of trade associations is the subject of fair and unfair competition. The United States was developed under the *laissez faire* theory. Under this idea, individual initiative was given full play, and competition was expected to give the public reasonable prices, good quality, and fair treatment. During the past few decades there has been developing a feeling that the public was not adequately protected by competition. This led to a demand for protection from large business units by government action. It was found that competition did not remain free and open; that it was limited by price agreements, pools, divisions of territory, limitations of output, and unscrupulous methods used by big concerns to stifle competition.

The railroads were the first offenders. They early gave lower rates to large than to small shippers, and discriminated against non-competitive intermediate points in favor of more distant competitive points. The agitation against the railroads first gained headway in the Middle West as a part of the Granger Movement. This led to the passing of regulatory laws by the State legislatures in the late sixties and seventies. The movement gained momentum, and Congress passed the Interstate Commerce Act, regulating railroads, in 1887. By this time several of the industrial concerns had become large, and were guilty of practices as bad as those practiced by the railroads. The Sherman Anti-trust Law was passed in 1890 to prevent monopolies. This law was not well enforced for several years, but since 1905 several consolidations have been dissolved. The anti-trust laws were amended in 1914 by the passage of the Clayton Anti-trust Law and the Federal Trade Commission Act.

Need for rules in business.—The public has not ceased to believe in private initiative, but it has come to believe that it

can not depend upon free competition to protect it from unfair practices on the part of business men. In other words, the laws have attempted to do for business what rules do for prize fighting. Business has suffered from the adage "business is business," meaning that anything is fair in business, just as in love and war. Many business men early saw the evils of unregulated competition, and some of the trade associations early engaged in the work of improving the business ethics of their members. The work of the American Fair Trade League, although not a trade association, should be mentioned in this connection.

What is fair competition?—Fair competition is competition on an ethical basis, competition that is conducted along the lines of honesty and equity, and that does not take unjust advantages of competitors or customers. Unfair competition is competition not conducted on this basis.[1] It is impossible to give a legal definition of unfair competition, as neither Congress nor the courts have defined it. When the Federal Trade Commission Act was passed, information and experience were too meager to enable a satisfactory definition to be framed. Congress therefore simply declared, *"that unfair methods of competition in commerce are hereby declared unlawful. The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations,*[2] *from using unfair methods of competition in Commerce."* This gave the Commission power, subject to court review, to determine what constitutes unfair competition. The Commission has felt its way, and the appeals to the courts from its decisions on several important points has caused considerable delay. It is noteworthy, however, that in most cases its decisions have been accepted without appeal. In some cases the commission acts pretty much as a court of arbitration between men in the same industry holding different opinions as to the ethics of certain practices. The Commission contends that all practices which have a dangerous tendency

[1]Other terms used by the courts are: "not honest competition;" "not an act of fair trade competition;" "not legitimate competition;" "not lawful competition;" "unfair dealing;" "unfair means;" "unfair advantage;" "unfair mode of trading;" "not proper competition;" "inequitable competition;" "unfair business methods;" "unjust and unfair practices and methods," and so forth.

[2]Common carriers and banks were excluded as they are subject to regulation by other bodies.

to unduly hinder competition or create monopoly are unfair, whether or not accompanied by deception, bad faith or fraud.[3]

Is the law clear? —Business men often complain that they are uncertain as to just what they can do and what they cannot do under the law. Looking at the matter from one point of view, they seem to have plenty of ground for confusion, as many practices are of doubtful legality, and the line between that which is legal and that which is illegal is not clearly drawn. From another point of view, there is little justification for their complaint. Why not leave all questionable practices alone? In talking this matter over with business men, one cannot escape the feeling that they often try to find out just how far they can go without getting into court. They are like the boy who tries to walk as near the edge as he can without falling in. Witness the attempts of competitors to secure uniform prices without entering into "agreements." Why all these open-price associations, cost discussions, price discussions, exchange of price lists, "educational" work of associations, and such like? Any agreement among competitors for price-fixing purposes is illegal. It makes no difference whether it is called "agreement," "understanding," or "consensus of opinion." If there is a meeting of the minds there is an agreement. The spirit of the law is the important thing, and the impartial observer can hardly escape the opinion that many meetings of competitors attempt to violate the spirit of the law and at the same time escape its penalties. The law against price agreements may be wrong. If it is opposed to sound economics, would not the proper procedure be to set about having it amended so as to permit price agreements under proper safeguards, rather than to try finding ways to defeat its purpose?

The spirit of the law is clear. A few years ago Mr. Taft, now chief-justice, said, in answer to a man who complained that business men were in the dark as to what they were allowed to do and what they were not allowed to do, "you business men know when you are violating the law." When honest men follow the dictates of their consciences as to honesty and fair dealing, there is little danger of violating the law. Fair competition is the attempt to apply the teachings of the golden rule to modern business conditions. The trouble

[3] Annual report, 1922, page 24.

is that business men in the heat of competitive struggles to make sales are apt to lose their perspective, and do things that they themselves would not justify if in an impartial position. An unfortunate part of it is that men of honesty and ideals are often forced to adopt practices which they do not approve, in order to hold their own against unscrupulous competitors. From these facts, the desirability of written codes of ethics and an impartial government agency to act as umpire and a restraining force is evident. At times a business concern, wishing to conduct its business on a high plane, will contribute to the support of organizations which have as their object the prosecution of those using shady methods, in order that they themselves will not have to resort to such methods.

Unfair competition under the common law.—Many commercial practices were held to be unfair or illegal under the common law before the passage of the Federal Trade Commission Act. Among such practices were the following:

Inducing competitor's patrons to break their contracts for supplies, goods or service by fraud, coercion, intimidation, or misrepresentation. When only "fair" means, such as low prices or better quality are used, the court decisions are not uniform.

Enticing competitor's employees to break their contracts of employment in order to cripple a competitor.

Disclosure or use of trade secrets by persons who have acquired them in confidential employment, or by others who obtain such secrets from former employees with knowledge of how they are obtained.

Betrayal of confidential information acquired by an employee in the course of his employment.

Appropriation of values created by competitor's expenditure, such for example as news gathered by a telegraph company.

Defamation of competitors or disparagement of goods in such a way as to defame him. Disparaging (untrue) statements about competitor's goods were not generally held unlawful under the common law but are so considered by the Trade Commission. Regardless of its legality, this practice is generally considered to be unethical and poor salesmanship.

Intimidation of competitor's customers by threats of suits against them for infringement of patents was generally held

unfair when threats were made to frighten away customers, and not in good faith to warn of intended suits. The Trade Commission also considers that such threats when vague, indefinite, or widespread are unfair. The Commission holds that false claims to patents constitutes an unfair method of competition.

Bribing of employees of another for the purpose of receiving preferential treatment, as in the letting of contracts.

Passing off goods of one manufacturer or dealer as those of another.

Unfair competition under the Federal Trade Commission Act.—In addition to practices held to be illegal under the common law, the Trade Commission considers many other practices as constituting unfair competition under section 5 of the Federal Trade Commission Act. It must be remembered that the Commission's power is limited to concerns engaged in interstate commerce.

The following are some of the principal practices which are considered unfair:

Combinations of competitors to enhance prices, maintain prices, bring about substantial uniformity in prices, or to divide territory or business.

Preventing competitors from procuring advertising space by misrepresentations to advertising mediums.

Trade boycotts or combinations of traders to prevent certain dealers or classes of dealers from procuring goods. Examples are furnished by wholesalers conspiring to boycott or withdraw patronage from manufacturers who sell to a competitor and in this way try to prevent the competitor securing goods with which to conduct business.

Tampering with and misadjusting the machines sold by competitors for purpose of discrediting them with purchasers.

Commercial bribery—bribing of buyers or other employees of customers or prospective customers in order to make sales.

The payment of bonuses by manufacturers to salesmen of jobbers and retailers to procure their special services in selling their goods.

Use of monopolistic concerns of concealed subsidiaries for carrying on their business, such concerns being held out as "independent."

Resale price maintenance.—Resale price maintenance will be discussed in Chapter XXV. This practice is considered unfair competition under the law, but members of the Commission have expressed the opinion that the practice is desirable, and advocated passage of a law by Congress legalizing it.

Deception of customers.—Many practices that deceive the customers have been held to be unfair, for example: the use of false or misleading advertisements; misbranding of fabrics and other commodities; adulteration of commodities and selling them under such names and circumstances that the purchaser would be misled into believing them pure; selling rebuilt machines as new products; use of old materials in products without disclosing this fact to customers; simulation of name and style of a rival product; misrepresentation, such as statements by a wholesaler that he owns factories when this is not the case; misrepresentation in sale of stock of corporations; and selling of "seconds" as goods of first quality.

As examples of false advertisements might be mentioned the advertising of part silk hosiery as "silk," or of part wool socks as "wool sport socks;" and the advertising of salt for cattle as containing seventeen different ingredients when it contained only seven, and claiming that it was approved by the United States Government when this was not the fact.

As an example of simulation of slogans: let us say that Jones has made and sold "Ozam" for years but has never had the name registered. Smith makes and sells "Olzam." If Jones can show that Smith deceived buyers and intended to rob him of his customers, he has a remedy with the Trade Commission.[4]

The Winsted Hosiery case furnishes us with an example of misbranding. The Winsted Hosiery Co. for many years manufactured and sold underwear to the retailers, labeling the cartons, "natural merino," "gray wool," "natural wool," "natural worsted," or "Australian Wool." None of the underwear was all wool and some contained only ten per cent wool. This practice was justified by the manufacturers on the ground that these terms were trade terms and did not deceive the dealers into believing that the goods were all wool. The Federal Trade Commission, however, ordered the discontinuance of such labels, on the ground that a substantial number of the con-

[4]John Walsh, formerly chief counsel for Federal Trade Commission, writing in *Nation's Business*, February, 1922.

sumers and some buyers and salespeople for retailers were deceived. The Trade Commission was upheld by the Supreme Court of the United States. In the course of the decision Justice Brandeis said, "The labels in question are literally false, and, except those which bear the word "Merino," are palpably so. All are . . . calculated to deceive and do in fact deceive a substantial portion of the purchasing public. . . . The fact that misrepresentation and misdescription have become so common in the knit underwear trade that most dealers no longer accept labels at their face value, does not prevent their use being an unfair method of competition. A method inherently unfair does not cease to be unfair because those competed against have become aware of the wrongful practice."

Price-cutting.—Free competition is supposed to involve attempts on the part of competitors to undersell each other. Under certain conditions, however, price-cutting is considered an unfair practice, for example, local price-cutting by a large concern to drive a small concern out of business. The Trade Commission considers the following as unfair methods of competition: the giving away of goods in large quantities in order to hamper and embarrass small competitors, or the selling of goods at cost to accomplish the same purpose; the sale of goods at cost coupled with statements misleading the public into the belief that they are sold at a profit; the bidding up of the prices of raw materials to a point where the business is unprofitable, for the purpose of driving out financially weaker competitors.

A man disliked his treatment in a barber shop and had a heated argument with the barber. In revenge he rented a nearby vacant store and hung out a sign "hair cutting and shaving free." The intent was clearly to injure the barber, and a court enjoined the irate customer to cease operating his free shop. If a manufacturer sells below his cost to drive a competitor out of the field, he is engaging in unfair competition. At the other extreme is the case of a manufacturer who is underselling his competitors who complain that he is selling below cost to drive them out of business and kill competition. The manufacturer, however, is not selling below cost. He has a large supply of low-cost raw material, and is making what he considers a satisfactory profit. It was not his fault that

his competitors had higher costs. The situation is the same if one manufacturer has a more favorably situated or more efficient plant. Fair competition does not require that he raise his prices to allow his competitors to make a profit.

A borderline case is furnished by a manufacturer who invades a new territory, and in order to introduce his goods sells both below his own cost and below the prices of competitors. He does this, not to drive his competitors out of business, but to introduce his goods, expecting to raise his prices as soon as his goods are established on the market.[5]

Stiff competition not always unfair.—It clearly is not in the interest of free competition for every business man, who feels that he is losing out in the competitive struggle, to have his competitors restrained from following too rapid a pace. One competitor must sometimes lose. The competitive system is supposed to eliminate the most inefficient, and allow only the more efficient to remain in business. The doctrine of unfair competition simply says that one competitor shall not take an unfair advantage of another, that there shall be no "hitting below the belt." The owner of goods has a right to place his own price on them, but in making a sale he may commit acts or make representations that injure his competitors or deceive his purchasers. Yet it is often difficult to determine just what practices give one concern an unfair advantage, because it is difficult to foretell the result of many practices. Business men in a trade often have very hazy ideas of just what is unfair. When asked to name unfair practices or abuses, they are very likely to think of only those that at the particular time make it hard for them to effect profitable sales. For example, rural merchants have often thought of mail-order competition as "illegitimate." Yet, from a public viewpoint, the mail-order house may be the fairest kind of competition, as it brings a new competitor into the rural trade and forces the local dealers to reduce their prices. The retail grocer has thought in the past that the chain store was "unfair," and yet the chain store was not selling below cost generally. The old brokerage house may complain of split commissions as unfair, yet this practice may offer an opportunity for new concerns to enter the business, and may also have a tendency to lower prices to consumers. If the house splitting commissions has no intention of driving

[5]John Walsh. "Is Price Cutting a Crime?" *Nation's Business*, April, 1922.

competitors out of business thereby, it is hard to see how the practices could be held to constitute unfair competition.

Size.—Size alone, in the absence of monopoly, does not constitute unfair competition. The large concern is in a better position to take an unfair advantage of a competitor, and such an advantage may lead to monopoly. For this reason large concerns are watched more closely than small concerns. It may be in the public interest to maintain competition even if a monopoly would sell temporarily cheaper than can be done under competition.

The work of the Federal Trade Commission.—The Federal Trade Commission was established by an act of Congress, approved September 26, 1914, to bring about better, fairer, and more ethical conditions in the business world; and to prevent unfair methods, in other words to act as a referee and see that the fight is fair. The Commission was organized on March 16, 1915, and from that date down to June 30, 1923, 3,214 applications for complaints had been docketed, out of a much larger number of preliminary inquiries. Of these complaints, 1,817 were dismissed and 825 formal complaints served. Of these formal complaints 263 were dismissed, and 548 orders to cease and desist were issued. Only 40 cases were appealed to the courts.[6]

Of the cases decided by the courts up to this date the Commission was upheld in 13 cases and reversed in 18 cases.[7]

The Commission has done much to outlaw certain practices and to bring the discussion of unfair competition to the fore. It has naturally been much criticized by injured business interests. Criticisms have generally taken one of the following forms: that its work has been largely negative, telling business men what they can not do, rather than what they can do; that it has mixed into petty trade quarrels that should be left to work themselves out under the law of the "survival of the fittest;" and that its procedure has become technical, whereas it was started to relieve business men of the technicalities of the courts. As to the first criticism, the Commission has taken the position that it is unwise to place its stamp of approval on a future program. As to the second criticism, the question

[6] Annual report, 1923, page 26. Several cases pending at end of year.

[7] *Journal of Commerce*, April 28, 1923, and Annual Report of Commission for 1923.

concerns the point of view—when is a quarrel a petty trade quarrel, and when does it become touched with a public interest? The third criticism seems to be in part well taken, as the procedure appears to be rather technical; but whether this is the fault of the Commission or due to applicants and respondents bringing their lawyers along, is not clear. The members of the Commission have apparently always striven for the public interest. The author, however, believes it would be wise for the President to appoint one or two economists as members. Economists could furnish an impartial viewpoint combined with a knowledge of the economic laws underlying business and a knowledge of prevailing business conditions.

The Commission furnishes a place for business men to bring complaints of unfair practices. If such complaints seem to have merit, the Commission will investigate; and if the facts warrant it, issue a formal complaint. It should be borne in mind that the Commission acts primarily on behalf of the public, and only secondarily to redress private wrongs. Ordinarily the Commission will not consider a case where the injured party has adequate remedy in a court of law or equity.

Commercial arbitration.—By commercial arbitration is meant the settling of commercial disputes by boards of arbitration rather than by the courts. The courts are one of the cornerstones of civilization, since they furnish places where disputes can be settled by law rather than by force. The courts, however, have become slow and cumbersome in their operation, and since so many claims for damages have been taken to court in the large commercial centers, they are much behind on their dockets. For example, on a recent date the courts in New York had 21,380 cases pending; and as their capacity is only from 8,000 to 9,000 cases per year, it is evident that they are between two and three years behind.[8]

There has been a marked increase in the settling of commercial disputes by arbitration in recent years.[9] It is estimated

[8]See article by Moses H. Grossman, vice-president and founder of Arbitration Society of America, in *American Industries* of January, 1923, and article in *New York Times* of April 8, 1923.

[9]In 1920 the Chamber of Commerce of New York State added 200 more names to its list of official arbitrators. In a recent year this organization reported settling disputes ranging from 67 cents to $2,800,000 for parties in many States and Canada. The cost of arbitrating the $2,800,000 dispute was only $68.

that a few States, notably New York and Illinois, have adopted laws making the awards of the arbitration boards valid judgments, binding, and enforceable by the courts. In New York the courts will only review an award in case of fraud, corruption, malfeasance, misconduct, or excess of authority by arbitrators. Disputes have frequently been settled by referring them to arbitrators, but formerly the decisions of the arbitrators were not binding. Under these laws neither party can refuse to accept the decision after agreeing to arbitrate. Under the New York law a provision in a written contract to settle by arbitration, forces the settlement of any disputes by arbitration. Provisions for arbitration are generally made by trade associations, chambers of commerce, and credit men's associations, which provide lists of official arbitrators who can be called upon when desired to act as arbitrators. The New York law, however, is open to the public in general. Two or more persons can agree in writing to submit any actionable difference or controversy, with a few exceptions, to arbitration. An arbitrator may be any person selected by the parties, and he is endowed with power to subpoena witnesses and compel the production of books and papers.[10]

Advantages of arbitration.—There are five important advantages to commercial arbitration. First, it is quicker than court procedure. Second, it is cheaper than court procedure. Third, it provides experts who have qualified for the case submitted by long experience in the particular trade involved. Fourth, it prevents enmity between the parties, which generally follows a law suit. Fifth, it avoids the publicity attendant upon court procedure. Consider a typical case of a shipment of goods which the buyer claims were not in accordance with specifications. If the case is taken to court, the seller likely will introduce two or three witnesses who will swear that the goods shipped were as specified in the order. The buyer will introduce two or three witnesses who will swear that the goods were not in accordance with the specifications in the contract. The case goes to the jury, the members of which know nothing about the goods. Yet they must reach a verdict. Probably it will be a compromise. If this case were submitted to arbitration, the arbitrators would either be familiar

[10] *Journal of Commerce* of April 24, 1920, and *New York Times* of April 8, 1923.

with, or would ascertain, the prevailing trade customs. They would examine the goods themselves, or appoint impartial experts to do so, and ascertain as nearly as possible the actual facts. It is evident that the arbitrators will generally arrive at a fairer verdict.

Relation of commercial arbitration to fair competition.—Commercial arbitration is ordinarily not thought of in connection with fair and unfair competition. It, however, makes for better feeling among business men, and is part of the general movement for higher business standards. For this reason it seems logical to discuss commercial arbitration in the chapter on fair competition.

Relation of fair competition to trade associations and prices.—Fair competition is closely related to the activities of trade associations, discussed in the previous chapter, and to the subject of prices discussed in the two following chapters.

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Questions—Chapter XXIII

1. What do you understand by unfair competition? Does its prevention tend to increase or decrease the strength of competition? Why?

2. Enumerate the principal practices that have been held to constitute unfair competition.

3. When is price-cutting unfair?

4. A manufacturer of tools is accused of selling below cost to stifle competition. He was not selling below cost. He had a large supply of low-cost natural gas which reduced his cost of production. He argued that it was not his fault if his competitors were not so fortunately situated. Was this a case of unfair competition?

5. A jeweler manufactured gold-filled rings, which he advertised as "gold," marking the rings 14 karat or 18 karat according to the fineness of the gold used in the filling. Is this an unfair practice?

6. A manufacturer of chemicals, oils, thinners, and so forth, made a petroleum distillate with a little turpentine added, which he called "Pinene," a name accepted in chemical nomenclature as designating the chief constituent of spirits of turpentine. He advertised this product widely, stating that it was "equal to turpentine and is a chemically correct substitute for turpentine; that it is a synthetic turpentine embodying all the physical measurements of spirits of turpentine and meeting all technical requirements of turpentine."

The Trade Commission ordered him to cease and desist from using "Pinene" in connection with the interstate sale of petroleum distillate, and from advertising the facts stated above. Upon what grounds was this decision based? Do you agree?

7. We have the Interstate Commerce Commission to regulate the railroads, the Federal Reserve Board to control the banks, the Packers and Stockyards Administration in the Department of Agriculture to regulate interstate commerce in livestock and meat, and the Federal Trade Commission to supervise interstate commerce conducted by business concerns in general.

What theory of government is back of the establishment of these bodies?

Why is the task of the Trade Commission more difficult than that of the other boards?

8. What is commercial arbitration? What are its advantages?

Chapter XXIV

PRICE-DETERMINING FACTORS

Importance of prices.—Prices are one of the most important things in business. Accuracy in forecasting price changes may mean success, while mistakes may mean failure. Some concerns have attained success as a result of low prices and a large volume of business, and others as a result of high prices and a sales appeal based on quality. A price too low may mean loss. A price too high may mean idle factories, crowded warehouses and—loss. Price and quality cannot be considered separately. A low price means nothing until quality is considered. The concern that says it does not care about price; that its doesn't sell its goods on price; that high prices get the buyers' minds on quality, on which basis all sales should be made, may be able to get 10, 15, or even 25 per cent more than others for its product; but let it try to get 100 or 200 per cent more and see how its sales will slump.

Changes in price levels.—It is well known that we have periods of rising prices and periods of falling prices. These are quite different things from the daily and weekly fluctuations in prices. These changes in price levels, together with the accompanying changes in industrial activity, have been called business cycles. During a period of rising prices everyone wants to buy, as the goods will be worth more when they are sold or consumed in the future than at the time purchased. Merchants and manufacturers are making money on their inventories and hence buy in advance of immediate needs. The consumer does the same to a lesser extent. The customer says, "Shoes are too high. I will make my old ones finish the winter," to which the retail salesperson replies, "They'll be higher, sir, in the fall." Whereupon the customer buys one pair and perhaps two pairs. This freedom in buying means a strong demand and is one of the factors contributing to the advance of prices.

On the other hand, nobody wants to buy when prices are

falling. The merchants and manufacturers do not want to lose money on inventories, and so buy from hand to mouth. The consumer makes his old shoes finish the winter. Demand is weak which tends to reduce prices. All holders of goods want to unload before prices go any lower. This large supply helps the downward movement. Both rising and falling prices are cumulative. Once started, a price movement may go a long distance on its own momentum.

Movements in Price Level, 1899–1923

It is very important for all business concerns to anticipate changes in price movements. If prices are going up, large purchases may be made to advantage. If prices are going to fall, it is wise to buy lightly, and push sales so that stocks will be light when the break comes. The correct forecasting of such changes, however, is very difficult. Wrong forecasts often result in losses. For this reason many successful business men have made it a rule always to buy conservatively, except at times when all underlying conditions point to price advances. Conservative buying prevents large losses when prices break.

Factors determining changes in price levels.—The two underlying factors that are credited with causing changes in price

levels are: first, the supply of and demand for goods, and second, the quantity of money in circulation. Neither of these factors can be discussed at length here. The law of supply and demand is explained in most books on the principle of economics, and is a matter of daily discussion among business men and in business periodicals. It may be well, however, to say a few words about the quantity theory of money.

The quantity theory of money.—The quantity theory of money is much less understood and is still in the controversial state. The essence of the quantity theory, briefly stated, is that the price level is the result of dividing the total amount of money available for commerce by the total of commercial transactions. In the amount of money in circulation must be counted not only metallic and paper money but bank deposits, as in the United States most bills are paid by checks. We must also consider the rapidity with which money circulates. Small coins in a busy retail section may change hands several times a day, while money tucked away in tin cans and bedticks may change hands only a few times a year. The same is true of bank deposits. One man may issue checks every few days equal to his average deposits, while another may take two or three months to withdraw his average balance. The theory may be expressed by the following formula. P repre-

$$P = \frac{mr}{n}$$

sents price, or price level. N represents the number or amount of commercial transactions; or the volume of trade. M represents the amount of money available, including checking deposits; and R represents the rapidity of circulation.

The advocates of the quantity theory claim that they can forecast changes in the price level by changes in the amount of "money" in circulation. The anti-quantity theorists deny this, saying that the amount of money is the result and not the cause of changes in price levels. If prices double, other things being equal, then we need twice as much money to carry on business. Few economic theories have been discussed with any more interest during recent years. There is a great difference of opinion among both the economists and business men. The quantity theorists seem to be in the majority among the economists, judging, at least, by the noise they make.

Judged by the same criterion, the anti-quantity theorists seem to be in the majority among the bankers and business men.

If true, the quantity theory is of fundamental importance to business men, for the reason that by studying the changes in the amount of money, they could forecast or predict changes in the price level, or trend, several weeks in advance. This information would be of tremendous value to all persons engaged in buying and selling goods. If, on the other hand, the quantity of money in circulation is the result and not the cause of price changes, it is of little practical value to buyers and sellers of goods.

Factors to be considered in fixing prices.—The official charged with the responsiblity of fixing a concern's prices, must consider not only the trend of prices but many other factors, such as the cost of the goods, competitors' prices, the quality and reputation of the product, the customary price, and what "the traffic will bear," or what the consumers will pay without a serious falling off in demand.

Cost of goods.—Some people seem to think that all the sales manager has to do in naming prices is to ascertain the factory cost of the goods from the firm's accountant; add to this his selling expenses, and what is considered a fair profit; print his price lists; and send his salesmen out to get the business. If it were as simple as this, business would be a "snap," all would succeed, and there would be no failures. Over a short period cost has very little to do with prices. The merchant who paid $10 for silk shirts and can get only $5 for them must sell them for $5. The farmer who has wheat that cost him $1 to raise will not sell it for $1.10 if the market price is $1.60. The relation of cost to price is this: that over a long period those producers whose costs of production are above the market price will be forced out of business. On the other hand, if the price is considerably above the cost of production, the large profits will tend to increase output by drawing in new producers and by stimulating the output of those already in business. This increased output will increase competition until prices fall to the cost of production by the marginal producers (the non-profit producers who are just managing to stay in business). Thus, under a competitive system over a long period of time, prices tend to equal the cost of production by the marginal producers. During the period of

government price-fixing in 1917 and 1918, prices were fixed on what was known as the bulk-line principle. That is, prices were fixed high enough to allow the bulk of the output, say 70, 80, or 90 per cent, to be produced at a profit.

One of the most widespread fallacies is that prices are based on the average cost of production. As previously pointed out in Chapter XXII, under a competitive system, marginal, and not average, costs are the determining factor.

The price-fixing official of a concern, however, should consider his costs in naming prices. If competition forces him to name a price below the cost of production, his concern should examine its production methods to see if its cost can be reduced. If prices are below cost as a result of price wars, he should consider the advisability of limiting the sales and concentrating on other products. At times it may be well to stop producing goods that can be sold only at a loss. At other times it may be well to take his losses and wait for better conditions. It may be a case of the survival of the fittest.

Competitors' prices.—The sales manager must consider the prices charged by his competitors. Unless his goods are of a better quality or have a better reputation, he can get little more than his competitors. Business men generally try to make their prices "in line" with prices of competing concerns. Some men have made a practice of naming their prices in this way: "If my competitor can sell at that price I can do the same." Since prices must be in line with the prices of others, a cost-accounting system is regarded as a useless luxury. This is a wrong attitude, for the accounting system would at least warn of approaching losses, so that prices could be raised or production stopped.

What should be done when a fair profit can be made at prices below those of your competitors? Such a condition may arise from the fact that your concern has a lower cost of production than your competitors. Some argue that, under such a condition, the wise policy is to reduce prices and thereby increase the volume of sales and stock turnover, and hence total profits. Others argue that this is unwise, as your competitors will follow your example, with the result that no one will gain any business and the profits of all will be reduced. Before deciding on the proper policy, the conditions in the industry and the probable increase in demand resulting from a

lower price should be considered. It may be that a cut in price will so stimulate demand that all concerns will have more business and more profits than before, or that some competitors will be eliminated. Some such concerns make it a policy to keep the price as low as is consistent with fair profits in order to stimulate demand. On the other hand, if the demand is relatively inelastic, a different price policy may be advisable.

Quality and reputation.—The market is full of similar articles that sell for different prices because they are of different qualities. The old established brands often sell for more, while new or unknown brands may sell for less than the prevailing or common price. One of the reasons why branded products are developed is that the producers may be freed from the keen price competition existing on bulk products. The public will pay more for a packaged, branded product than for the same product in bulk. Whether this is a mistake on the part of the public does not concern us here. What we are interested in at this point is the value of this to the manufacturer and farmer.

Many concerns say frankly that they want to sell on a basis of quality, that they do not care to compete on a price basis, and that they purposely place their prices slightly higher than others in order to get the buyers' minds on quality at once. To many buyers, higher prices carry the idea of superior quality. Some people will choose the higher-priced article for the simple reason that they think the higher price signifies a higher quality.

"Some years ago an investigation of the costs and selling prices on a piece of well known broadcloth was made and disclosed these facts. The mill received $1.65 a yard for the goods delivered New York. A Fourteenth Street department store sold the goods at $1.85 a yard. A store, then on Twenty-third Street, sold the same cloth at $2; a Fifth Avenue store, then owned by the parties operating the Twenty-third Street store, sold the cloth at $2.50; while another Fifth Avenue store sold the cloth as "imported" for $3.50 a yard. Curiously enough at the time of the investigation, the store selling at the highest price was buying more of the goods than the other stores."[1] The old grocers who sold fifty cent and one dollar tea out of the same package were simply tak-

[1] *Journal of Commerce*, January 28, 1921.

ing advantage of this tendency. Perhaps those buying the "dollar" tea got more satisfaction out of drinking it than if they had paid fifty cents for it. Who can tell? But there were many more people who paid fifty cents than who paid one dollar for their tea. All buyers will not pay an extra price to get a slightly better quality. Although price and quality cannot be separated, most people think a great deal about price. This means that all sellers cannot get the business of those who are willing to pay extra for extra quality. If too many try for it, competition may be exceptionally keen.

Quality may be based on quality of raw materials, skilled workmanship, experience in production, superiority of design, cleanliness in preparation, or of superiority of process. The superiority may be based on a patented or secret process. Reputation means that the people think a certain brand has a certain quality. As far as the seller is concerned, these two are sometimes pretty near the same thing. The importance of a superior quality to the seller is that he can get more for his product than his competitors do for theirs, or he can sell at the same price and make a larger number of sales. Take a manufacturer of farm implements, for example. He makes several implements. Some of them he sells at the same prices as his competitors. On a particular one, perhaps a swamp or road plow, he has a better implement, owing to its design, than any of his competitors. He can make a much better profit on this than on his other implements. Perhaps he makes a profit of 10 per cent on most of his implements, but on this particular plow he is able to make a profit of 25 or 35 per cent.

Customary prices.—The price that customers have become familiar with, must be taken into consideration in fixing the prices for many articles. For a long time walking plows retailed at $1 per inch for the width of cut. Thus a plow turning a 12-inch furrow retailed for $12, while one cutting a 14-inch furrow sold for $14. The farmers objected to paying more; and for a long time prices remained at this point, the manufacturers preferring to reduce their profits, or the weight of the plow, in order to sell so that it might reach the farmer at the customary price. The manufacturers of many other products often changed the size of the package in preference to changing the price. The following case was recently called

to the author's attention. The price of oranges was high, but the price of the small sizes was out of proportion to the price of the large sizes. The explanation given was that the retail stands only with difficulty could get more than five cents for an orange. Consequently, when the price of any particular size got so high that it could not be sold for five cents, the retailers refused to buy. This caused a falling off in demand for the larger sizes and an increased demand for the smaller sizes. The result was that small oranges were retailing for five cents, when very much larger oranges could be sold for six or seven cents. Still most buyers purchased those sold for five cents.

When a customary price exists, the manufacturer should consider it in fixing his prices. It also is better to sell small convenience goods that are widely used on a basis permitting their resale to the customers at an even figure—for example, 5, 10, or 25 cents. The single coin makes it easy to buy. Odd prices, such as 19, 33, or 98 cents, give the idea of cut prices, or bargains, and do attract a certain type of trade; but there are many places where an even price is preferable.

Ethical or fair prices.—There has come down through the ages a more or less vague conception of a fair, honest, or just price. There are many who claim that prices are fixed by what competition will allow or what the traffic will bear, and that ethical considerations have no influence with the sellers. Perhaps this is generally true, but there are many exceptions. There are many persons who fix their prices to yield a reasonable profit, and refuse to take more, even if market conditions would allow them to do so. A good example of this was the rent situation existing during the years following the great War. The author knew of similar houses similarly situated, the rent of which varied 50 to 75 per cent, simply because certain owners saw fit to ask more than the others. Those that made moderate increases said that they were making fair returns on their investments, and that they did not want to be "profiteers." The others simply charged what the traffic would bear. The whole idea of "profiteering" was an unfair price—a price that yielded more than a reasonable return on the investment. The whole purpose back of decrying the "profiteers" was to force sellers to be content with reasonable profits.

Ethical considerations, perhaps, play a less important part than they should in the fixing of prices, and yet it must be admitted that the question of ethics does play some part in the determination of prices.

Charging what the traffic will bear.—All sellers must be careful not to place their prices so high that a serious falling off in sales results. It must be remembered that demand is just as important in determining prices as supply. The so-called "buyers' strike" during the winter of 1920-1921, meant only that prices were higher than most consumers would pay. This meant that prices had to be reduced to levels at which the consumers would buy before sales could be made. The danger of prices fixed by monopolies or by agreements among competitors is that the prices will be fixed so high that demand will be curtailed. After all is said, the greatest factor in curtailing demand for most goods is high prices, and the greatest factor in stimulating demand for such goods is low prices. The cheaper a product is, barring certain exceptions, for example, goods bought because of their exclusiveness, the more people will buy; and the higher it is, the less they will buy. This applies to everything from potatoes to automobiles.

Monopoly price.—A monopoly in fixing its prices has to take into account all of the factors considered by other sellers, except competition. If the monopoly controls the supply of a given commodity and is able to turn out enough of it to fill all possible demand, then it has to consider primarily the demand over which it has no control. Its cost of production fixes the lower limit of the possible price. The monopoly attempts to fix its prices at the highest point that the traffic will bear, that is, at the point that will yield the largest net profit. If the demand for the product varies widely with price, the monopoly may fix a low price to secure a large volume of sales. If, on the other hand, the demand is not very elastic and little affected by changes in price, the probability is that the price will be relatively high.

This principle may be illustrated statistically. Let us suppose that a monopoly has a certain overhead expense for interest, depreciation, taxes, and maintenance of property; for the salaries of superintendents and managers; and for general office expenses. Then there is a certain direct charge for raw

materials and factory, or direct, labor that varies in proportion to the number of units produced. If the demand for the product at different prices be known, the net profits realized at each price can be computed. Suppose that the fixed overhead expense is $1,000,000 a year, that the direct charge for raw materials and labor is 30 cents for each unit of output, and that the demand varies as shown in the following table:

Selling Price Per Unit	*Demand in Units*	*Net Sales*	*Total Variable Expense*	*Fixed Expense*	*Total Cost*	*Net Profit*
$1.00	1,000,000	$1,000,000	$300,000	$1,000,000	$1,300,000	*$300,000
.80	2,000,000	1,600,000	600,000	1,000,000	1,600,000	.....
.75	3,000,000	2,250,000	900,000	1,000,000	1,900,000	350,000
.60	4,000,000	2,400,000	1,200,000	1,000,000	2,200,000	200,000
.50	5,000,000	2,500,000	1,500,000	1,000,000	2,500,000	.....
.40	6,000,000	2,400,000	1,800,000	1,000,000	2,800,000	*400,000

*Loss.

The first column shows the selling price per unit, the second column the number of units that can be sold at this price, the third column total net sales in dollars, the fourth column the total variable charge at 30 cents per unit, the fifth column the fixed overhead expense, the sixth column the total cost, and the seventh column the total net profit.

It is evident that the price will be fixed at 75 cents, as the largest net profit is realized at this price. In actual practice few cases could be found so simple. The overhead charges are not absolutely fixed regardless of output. We have, however, chosen a simple example to illustrate the idea we are trying to make clear, namely, that demand really fixes the monopoly price. The reader can add other factors and make the problem as complicated as he desires. The demand can be ascertained, of course, only by actual trial. It is so influenced by other things than price, such as changes in general prosperity, that no monopoly can ever be absolutely certain that it has its prices fixed at the most profitable point. A monopoly price may be a low price—at times lower than the price would be under competition—but as a rule it is safe to say that monopoly prices are generally somewhat higher than they would be if competition were keen.

Monopoly price may be based on average cost.—A monopoly, if it so desires, can base prices on its average costs, letting

the profits in some plants offset the losses in others. The monopoly is looking at total net profits. This can not be done under competition for the reason that the low-cost producer is not willing to turn his profits over to his high-cost competitor. The tendency, however, is for the monopoly to close the high-cost plants and concentrate production in the more efficient plants. This tends to lower the average cost of production. It must not be assumed from this that a monopoly can always produce goods more cheaply than can be done by several competitors. This may or may not be true. A monopoly making nice profits may be satisfied to let things go along as they are. One of the greatest incentives to introduce economies, to devise new methods, or to install new processes is the threat of loss or ruin.

What constitutes monopoly.—Just what percentage of production is necessary to constitute monopoly has never been satisfactorily determined. If court decisions be followed, we may conclude that a concern must control somewhere between 60 and 90 per cent of the total production to be so classed. Outside of patented and secret-process articles, and a few raw materials such as nickel and aluminum, there are, according to this definition, few monopolies in the country. Yet it must be admitted that the extreme competitive conditions upon which much of our economic theory is based, now exist in relatively few manufacturing industries. These conditions have been modified by the growth of large industrial corporations, by trade associations, by open-price associations, by gentlemen's agreements, by the fear of starting price wars, by interlocking directorates, by communities of interest, and by mutual understandings. The importance of large companies in fixing prices has been previously commented upon. In the canned-salmon industry, for example, two companies which together pack less than 30 per cent of the total output, name the prices at which approximately 90 per cent of the pack is sold.[2]

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Questions—Chapter XXIV

1. What is the quantity theory of money? Is this true or false? Why?

2. What factors must a sales manager consider in naming his selling prices?

3. How do monopolies fix their prices? What is the difference between the methods followed by monopolies and competitive concerns?

4. If a monopoly had a fixed expense of $500,000, and a variable expense of $1 per unit of output, what would be its selling price if

the demand is assumed to be as follows: price $4, demand for 400,000 units; price $3, demand for 600,000 units; price $2.50, demand for 900,000 units; price $2, demand for 1,200,000 units; and price $1.50, demand for 1,800,000 units?

5. The John Doe Co. manufactures tooth paste which it believes to be superior to most pastes on the market. The company is undecided whether to have the paste sold at 35 cents and advertise better quality for same price, or to have it priced at 40, 45, or 50 cents and sold on a quality basis. Which policy should be followed? Would your answer be the same if this concern made flour? Automobile tires?

6. The Mason Company manufactures a high grade of men's clothing, which is sold through retail stores, which, as a rule, handle no other brand of high-grade clothing. Most of these stores, however, handle medium-priced and cheap clothes made by others. The Mason Company, although small, has a very profitable trade. The company is considering the putting out of a cheaper product under its brand. It is believed that most of the retailers would handle the cheaper goods and that they could be easily sold on the reputation of the high-grade clothing. The company anticipates no serious difficulties in expanding its plant and turning out the cheaper product, but fears that the cheaper product will injure the reputation and sale of its high-grade goods? What policy should be followed?

7. The Sweet Confectionery Company manufactures chocolate bars and similar candies ordinarily sold at cigar counters, fruit stands, and drug stores. These products have been retailed at 5 and 10 cents, and the box candies at 25 and 50 cents. During a recent year the company found its production costs mounting rapidly. This was due largely to an increase in the price of sugar, and to increased wages which the company granted its employees. It found it impossible to sell the goods at a profit and allow their resale at the former prices. The company could have raised its prices, reduced the size of the bars and boxes, or operated at a loss hoping that the high costs would be only temporary.

What factors should a concern consider in determining its policy when faced by such a situation?

8. Cost data covering practically the entire output of canned salmon for 1916 and 1917 was compiled by the author as an examiner for the Federal Trade Commission. The cost figures for 1917 are shown at the bottom of page 475.

(a) What was the marginal cost of canning salmon in 1917?

(b) If you were a government official charged with fixing prices on the bulk-line theory, what price would you have fixed? If you

have difficulty with this question, secure a piece of coördinate paper and plot a cumulative curve (ogive).

(c) The weighted average of the opening prices of all grades was $8.33 per case. Ninety per cent of the output is said to have been sold by the canners at the opening prices. From this price the canners paid brokerage fees and allowed cash discounts which together amount to an average of 6.5 per cent. This meant a net price to the canners of $7.79 per case. Prices were named this year without government supervision and presumably under competitive conditions, although, as a matter of fact, two men in the industry named opening prices which were generally followed by the other canners. How near was the price actually named by the canners to the price set by you in answer to question b? Do the facts set forth here throw any light on the truth of the marginal theory of prices?

Cost per case	*No. cases packed at this cost*	*Total No. cases packed at and below this cost*	*Per cent of total output packed at and below this cost*
Under $1.50	53,965	53,965	....
$1.50 to $2.50	.....	53,965	....
2.50 to 3.50	1,787,881	1,841,846	....
3.50 to 4.50	2,283,673	4,071,554	52.8
4.50 to 5.50	1,335,569	5,407,123	70.1
5.50 to 6.50	932,488	6,339,611	82.2
6.50 to 7.00	298,373	6,637,984	86.1
7.00 to 7.50	383,602	7,021,586	91.1
7.50 to 8.00	158,687	7,180,273	93.1
8.00 to 8.50	164,675	7,344,948	95.3
8.50 to 9.50	126,224	7,471,172	96.9
9.50 to 10.50	153,625	7,624,797	98.9
10.50 to 12.50	47,016	7,671,813	....
12.50 to 26.50	37,674	7,709,487	100.0

Average cost $4.43.

Chapter XXV

PRICE POLICIES

The success attained in the sale of any product depends, to a very large extent, upon the price policies followed. It is the purpose of this chapter to discuss briefly some of the more important policies.

Uniform Prices

Prices uniform as to territory.—Goods are sometimes sold "f. o. b. factory," in which case the delivered cost varies to buyers in different parts of the country. On the other hand, certain sellers absorb the freight charges and deliver to all buyers, regardless of location, at the same price. A middle course is to divide the country into zones and deliver the goods for different prices in the different zones. Under this system the prices are uniform in each territory. The country may be divided into few or many districts. A division of the country into four zones might be as follows: First zone, the East and Upper South; second zone, the Lower South and the West from the Mississippi River to the Rocky Mountains; third zone, the Pacific Coast Section; fourth zone, the Rocky Mountains and Great Basin district.

Uniform prices in different parts of the country appear to be illogical, as they force the consumers living near the center of production to help pay the freight on the goods consumed by those located at a distance.[1] On the other hand, it may be argued that to charge the people living in the more remote districts more for their goods is to penalize them for their

[1]The way in which the price of a perishable raw product varies with freight rates and supply and demand factors may be illustrated by the prices of tomatoes in different Pennsylvania towns on August 9, 1922. The price of a ⅝-bushel basket in Philadelphia, which is near the New Jersey and Delaware farms, was 25 cents. Going West and North, the prices were: Lancaster, 60 cents; Harrisburg, $1.00, and Williamsport, $1.25. Pittsburgh at this time was drawing its supplies from the Marietta, Ohio, district. The price was 40 cents in Marietta, and 60 cents in Pittsburgh. Going East and North the prices were: Greensburg, $1.00; Johnstown, $1.25; Indiana, $1.75; Punxsutawney, $2.25, and Clearfield, $2.70.

location. Much the same argument can be made for uniform territorial prices as for uniform postal rates or flat rates on our city street cars.

Uniform prices the result of competition.—This practice of selling to the dealer in Kansas for the same price as to the dealer in New York, appears to be the result of competition. Suppose that competing factories making the same product were located in Philadelphia and St. Louis. The Philadelphia manufacturer has lower freight rates to dealers located in the East, and probably gets the most of their business. He desires to expand, however, and sends his salesmen to the Middle West. The dealers there reply that it is cheaper for them to buy from the St. Louis manufacturer. In order to get business it is necessary for the Philadelphia concern to deliver its goods as cheaply as they can be obtained from St. Louis. This being done, the Eastern concern is in a position to compete for business with its Western competitor. The St. Louis Company, however, does not sit idly by and see its trade lost. It probably reciprocates by invading the Eastern territory. As a result, these two concerns soon may come to pay the freight on their goods to all parts of the United States.

Advantages of uniform territorial prices.—The seller who sells at the same price over a wide territory places all buyers on the same basis. No buyer can complain of discrimination. This practice makes it easier to sell in the districts at a distance from the factory. It makes it easier for the buyers to compare prices of different sellers. It simplifies the quotation of prices, and makes it easier for the dealers to maintain uniform prices to the consumers.

Difficulty of maintaining uniform prices in all territories.—It is very difficult for most concerns to maintain uniform prices in all territories, because of the varying strength of competition. Some manufacturers vary their prices somewhat in different territories owing to the fact that competition is keener in some sections than in others. Take farm wagons as an example. They are made largely of wood and their manufacture is very largely the work of carpenters. No expensive machinery is necessary for their production. There has been a tendency, however, for the local blacksmiths and wagon makers to be replaced by the large wagon factories. Nevertheless,

many small wagon factories are still in existence. This is especially true in the Upper South where the factories can draw on local supplies of hardwood lumber and where wages are relatively low. Because of its bulk, freight is quite an item in the cost of wagons to the local dealers. This gives the local factories an advantage over those located at a distance. The manufacturer located in northern Indiana or Illinois may find that he must either stay out of many parts of the South or else sell at lower prices than he receives in the West. He may feel that his wagon is superior to those made by the local factories, but the farmers living near these factories like the local products and believe them to be equal to those built anywhere. It is therefore necessary for the northern manufacturer to stay out of this territory or to sell at prices practically as low as those charged by the local concerns.

Similar conditions are faced by producers in many industries. Relatively few companies have selling organizations that cover all parts of the country thoroughly. This often means that competition is much keener near the producing centers than in other sections. Buyers often prefer to buy from local concerns, because they can get quicker deliveries, and this enables them to carry smaller stocks than would be possible if goods were obtained at a distance. Local competition therefore often makes it very hard for sellers to maintain uniform prices in all parts of the country.

Prices uniform as to buyers.—Some concerns have but one price which applies to all buyers. Other concerns have no uniform prices, the price for each sale being subject to negotiation. The latter was formerly a common practice with retailers and is frequently used at present. The one-price policy, however, is now in very general use among retailers. This policy places all buyers on the same basis, and inspires confidence, as the buyers are not afraid that someone else will get a lower price. It also saves the time wasted in higgling.

In the sale of goods to dealers the problem is not so simple. The wholesaler wants to buy more cheaply than the retailer. The large dealer thinks he should be given a better price than the small dealer. The small dealer on the other hand thinks it unfair to sell to his large competitor at a lower price than he is compelled to pay. There is no plan that will satisfy all buyers.

Prices based on position in trade.—Some concerns have adopted the plan of letting the status of the buyer, whether wholesaler or retailer, determine the price. Under this plan one price applies to all wholesalers, regardless of the quantity purchased. Thus a concern may adopt the policy of selling only to the wholesalers, and of selling to all of them at the same price; or it may sell only to retailers, or it may sell to both wholesalers and retailers, having a separate price for each. The advantage of this policy is that it allows all dealers of the same class to compete on an equal basis.

The legality of selling the wholesaler at a lower price than the retailer, even though the retailer buys a larger quantity, has been upheld in the Mennin case. The manufacturer, however, must decide whether he is going to sell to semi-jobbers, coöperative jobbing houses, or chain stores. Such concerns commonly claim a wholesale standing and are accorded this status by many sellers.[2] Then the department stores and many factories insist on buying direct. If the seller refuses

[2]The National and Loose-Wiles biscuit companies adopted a practice of giving quantity discounts to chain stores on the total purchases of a chain even though deliveries were made to the separate stores in the chain and not to the chain's wholesale warehouse. This gave the chains a distinct advantage over the small unit stores. Some of the latter attempted to get quantity discounts by pooling their orders through buying clubs. The biscuit companies refused to allow the quantity discounts, allowed the chain stores, to the buying clubs, even though cash were paid for the goods. Regardless of the legality of the practice, which has not been finally decided at this writing, it seems hard to justify either from the standpoint of logic or salesmanship. If the club's credit is good, it would seem that the difference between it and chain stores is unimportant as deliveries are to be made to the individual stores in either case. The policy also tends to arouse the ill-will and hostility of the retailers.

A different policy was adopted in the sale of Carnation Milk on the Pacific coast. Chain stores were developed later there than in the East. After they became large enough to have large buying power several manufacturers of food products began selling them direct. The jobbers, backed up by the retailers, then refused to buy these manufacturers' products. The fight concentrated around Carnation Milk, the owners of which established their own distributing machinery. Early in 1924, "they announced a scale of prices which placed all retailers on the direct list, but favored carlot buyers or ten-case buyers very greatly against the small retailers. The buying exchanges were thus placed . . . (on a) parity with chain systems, which they wanted all along. Further, it helped them enlist members from among the "independent" retailers. So the organized retail grocers' associations at once withdrew from the alliance with the jobbers and ceased fighting. *Journal of Commerce*, February 16, 1924. The same paper of March 15, 1924, gave the quantity discounts as approximately 1.1 per cent on purchases of 5 cases, 2.2 per cent on 25 cases and 4.4 per cent on carlots.

to sell to these buyers he may seriously curtail his business. On the other hand, if he sells them at the wholesale price, the wholesalers will likely complain of unfair treatment. As a solution, some manufacturers have adopted a semi-jobbing price which is between the price to the wholesaler and the latter's price to retailers. A great many manufacturers sell to both wholesalers and retailers. In this case a manufacturer may have three distinct prices—one to the jobbers, one to the semi-jobbers, and one to the retailers. Some manufacturers adhere rigidly to these prices in spite of the fact that the large retailers often buy in larger lots than the small jobbers. There is, however, the insistence of the large retailers that they be given a jobbing, or at least a semi-jobbing status; and of the manufacturers, chain stores, and semi-jobbers that they be given a full jobbing status. The semi-jobbing price is an irregular one. It gives the recipient an advantage over his retail competitors in selling to the consumers, and places him at a disadvantage as compared with other wholesalers in selling to the retailers. Concerns selling to the retailers may receive objections to the semi-jobbing price, unless the semi-jobbers do a substantial wholesale business and observe the customary retail prices in their retail departments.

Demand for fair treatment of buyers.—There has been developing for some years a demand that all buyers of the same class be given the same prices and the same treatment by every seller. A feeling grew up that it was unfair to give different prices to similar buyers. This thought was in the mind of Congress in passing the Clayton and Federal Trade Commission Acts in 1914. From the facts outlined in the preceding paragraph, it is seen that it is no easy matter to determine what buyers are of the same class. In trying to apply the laws the Trade Commission tended to take quantity as the determining factor. This appears to be the only definite criterion, owing to the many types of buyers claiming a wholesale status. Such a practice would also aid the development of integrated marketing organizations which offer hope of cutting down marketing expenses. Naturally many business concerns oppose this view, and the courts have refused to support the Commission on this point. The feeling nevertheless persists that all similar buyers should receive the same price from the same seller.

This, of course, is quite different from saying that all buyers should receive the same price from different sellers. Competition among sellers is the essence of our competitive system.

Discounts

Prices based on quantity purchased.—In order to avoid all of these difficulties some manufacturers let quantity alone determine the price, regardless of the buyer's position in the trade. The quantity discount may be based on the size of separate orders or on the total purchases during a stated period, for example, one year. The first method is the simpler, and under it the following discounts might be announced:

Orders for less than 10 cases	net prices
Orders for 10 to 24 cases	1% discount
Orders for 25 to 49 cases	2% discount
Orders for 50 to 99 cases	3% discount
Orders for 100 cases or over	5% discount

Lower prices on large purchases are justified because of the lower expense of soliciting orders, packing and shipping goods, sending out bills, making collections, and so forth. This system of making prices also saves the seller from the necessity of classifying buyers. Buyers complain that they are wrongly classed, and hence unfairly treated. This policy, however, tends to eliminate the small dealers and to concentrate business in the hands of large retailers. The manufacturers, of course, may sell to the retailers and wholesalers at different prices, and yet give the large buyers of each class quantity discounts. Thus the large retailer would get a better price than the small retailer receives, but a higher price than the small wholesaler obtains.

Other forms of discounts.—Some manufacturers give special discounts to dealers stocking their entire line, or to dealers giving their goods special display or advertising. Some producers, in order to keep up sales, allow special discounts for orders placed during slack periods. To secure large orders some concerns pay the freight on carload orders while buyers of less than carloads must pay the freight. Some concerns date the bills forward by the approximate time required for the buyers to receive the goods. This is done so that buyers in all parts of the country will have an equal time to pay for their goods, and so receive the same credit terms.

Cash discounts.—It is a very common practice to allow a special or cash discount for the prompt payment of bills. The common rate varies in different trades. In the grocery and drug trades, it is often 2 per cent for payment within 10 days, while in the farm-implement trade the discount is now generally 5 per cent for payment prior to certain dates in the spring and fall, or within 90 days of the date of sale. In this latter trade, cash discounts of 10 per cent were not uncommon a few years ago.

Objections to cash discounts.—A great deal of discussion has taken place in the last few years concerning the justification of cash discounts. The discounts are much in excess of ordinary interest rates. For example, 2 per cent for 20 days (2 per cent for payment in 10 days, net 30 days) is equal to 36 per cent a year. Many persons have taken the attitude that no such discounts are justifiable, and that cash discounts should either be discontinued or reduced in amount. Many buyers also take advantage of the cash discount terms. If the terms are 2 per cent for ten days, the buyers often take the discount long after it is due. For example, a buyer may remit at the end of 20 or 30 days and deduct the discount as if the bill were paid within ten days. The seller for fear of losing the business of the buyer often accepts the check with the discount deducted, and says nothing. Other buyers allow certain invoices to go past the discount date, but pay later invoices promptly, deducting the discount. They thus use the sellers' money (due on the old bills) to take the discounts on the later bills.

Arguments in favor of cash discounts.—There is no doubt that the cash discount system has been abused. Some sellers justify the granting of cash discount, not on the basis that it is a fair payment for the use of money, but on the basis that it imposes a penalty on the slow payers. The cash discount, they say, is in effect added to the net price and so is not paid by those who pay their bills promptly, but acts as a penalty for those who are slow in their payments; and the collection of whose accounts perhaps involves extra expense. The buyers generally object to the discontinuance of the cash discount system. Some dealers say that the cash discounts make up a large part of their profits. A number of farm-implement dealers, for example, had average net trading profits, exclud-

ing cash discounts, of 2.5 per cent of sales, in 1915; while their "other income," made up very largely of cash discounts on purchases, averaged 3.8 per cent in the same year.[3] The buyers fear that an abolition of cash discounts would not be accompanied by a corresponding reduction in prices.

The system of cash discounts is so firmly established that its abolition would be extremely difficult. That the system has been abused cannot be denied. Trade acceptances, which are used by some sellers, may allow cash discounts to be granted, but prevent the buyer taking the discount after the discount date is passed. Sellers in the formulation of their price policies should give careful consideration to the cash-discount policy to be followed.

Legality of price discrimination. —The feeling that all buyers of the same class should receive the same prices has been developing for several years. As a result of the demand for equal treatment, the Clayton Anti-Trust Act, passed in 1914, contained the following provision: "That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between different purchasers of commodities, . . . where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce, *Provided* that nothing herein contained shall prevent discrimination in price between purchasers of commodities on account of differences in the grade, quality, or quantity, of commodities sold, or that makes only due allowances for difference in the cost of selling or transportation, or discrimination in price in the same or different communities made in good faith to meet competition: *and provided further* that nothing herein contained shall prevent persons from selecting their own customers in bona fide transactions and not in restraint of trade."

This law specifically allows quantity discounts. It also allows a seller to vary his prices in different territories to meet competition. To convict a seller for price discriminations, it must be shown that such discriminations may substantially lessen competition.

List prices.—Many concerns publish so-called "list prices,"

[3] Federal Trade Commission: "Causes of High Prices of Farm Implements," pages 266 and 268.

from which trade discounts are allowed the buyers. The use of list prices has several advantages. Some concerns print the list prices in their catalogues, the net price being obtained from supplementary discount sheets. When it is desired to change prices, it is only necessary to issue new discount sheets. Since the same discount may apply on a large number of articles, this may be a very simple matter. Another advantage of this method is that when the dealer shows the customer the catalogue for the selection of an article not in stock, the customer does not see the net price. If the discount is high enough to enable the dealer to sell below the list price, the buyer may feel that the dealer is giving him favored treatment.

Different discounts can be allowed different classes of buyers without issuing separate prices by simply giving them different discount rates. Some manufacturers use list prices to suggest resale prices to the dealers. This may be an easy way to suggest prices to the dealers that will yield them fair profits.

A disadvantage of list prices is that arithmetical calculations are necessary to obtain the net prices. The actual cost is not always apparent to the buyers who find it more or less difficult to compare the prices of different sellers.

Freight.—Many goods are sold "f. o. b. factory." In case the seller wants to pay the freight, he may quote a delivered price. Many sellers, however, quote a price "f. o. b. factory" less a freight allowance of.....per 100 pounds. There are two advantages from the seller's standpoint to such quotations. First, it relieves the seller of responsibility in case the goods are lost or damaged in transit. Second, the seller is protected in case of an advance in freight rates. A quotation "f. o. b. destination" places the liability of loss or damage in transit on the seller. He must then make the claims against the transportation company.[4]

"S. A. P."—Sales made subject to approval of price when named by the seller, are really options under which the buyers may later purchase stated quantities of goods if the price is satisfactory. Such "s. a. p. sales" are more or less common in the sale of canned foods. The future sales are made in the

[4]For a list of quotations used in foreign trade see pamphlet published by the National Foreign Trade Council giving definitions adopted by a conference of nine commercial associations held on December 16, 1919.

spring, and the opening prices are named latter in the season when the canners can more accurately approximate their costs of production. The canners say that it is necessary to make future contracts, for the reason that the banks are unwilling to advance money for the season's operations unless they can show that they have contracts for the sale of a large part of their packs. The buyers sometimes object to this method of naming prices, claiming that it allows the sellers to name high prices which the buyers practically have to accept, since few canners will sell below the opening prices.

Guarantee Against Price Declines

In order to stimulate sales in dull seasons or in periods of falling prices, some sellers have adopted the policy of guaranteeing the buyers against declines in prices. Buyers are often afraid to buy when prices are falling, for fear of losing money on the goods before they are resold. The seller by assuming this risk himself, may be able to stimulate his sales greatly. The guarantee may be against a decline in the seller's own prices or against a decline in the quoted market prices. In the former case the seller is under no obligation to give a rebate to the buyer unless he reduces his own price, no matter how much the general market price drops. The guarantee may be made for a definite period, for instance, 90 days; or it may be until a definite date, as May 1, for early spring sales. The guarantee may apply to the total amount of goods purchased or only to the amount still on hand when the price is reduced. The former policy may be used in sales to consumers, and the latter in sales to dealers. The vegetable canners very commonly have guaranteed buyers on future contracts against decline in their own prices. This has been done to prevent buyers of "futures" being placed at a disadvantage as compared with buyers of "spots." The tinned-milk producers have used this method for years to stimulate business during dull seasons. The guarantee against decline is frequently used by sellers during periods of business depression to stimulate sales.

Arguments for and against guaranteeing prices against decline.—Objections have been raised to guaranteeing prices against decline. It is argued that such guarantees tend to prevent or retard declines in prices, and hence are opposed to

the interest of the consumers. This is said to be true for the reason that sellers, having guaranteed their prices against decline, do all in their power to prevent declines in order to avoid giving rebates. It is also argued that it is the function and duty of the middlemen to assume risk of price declines, and that it is unfair to force the manufacturers to assume this risk. If it is the duty of the manufacturers to assume the risk of price fluctuations, they should assume the risk of advances as well as declines. That is, they should consign their goods and not sell them outright.

The principal argument in favor of guaranteeing prices against decline, is that such guarantees are a practical method of stimulating business when the buyers are holding off in fear of reductions in prices. Such guarantees may enable the manufacturer to maintain his volume of sales and keep his plant running. They tend to equalize business throughout the year and prevent dull periods. In industries where future sales are desirable, such guarantees may enable the buyer to contract for the future delivery of goods, without assuming too great a risk. Without such guarantees, buyers might very often be unwilling to purchase goods for future delivery.

Resale Price Maintenance

Resale price maintenance means that the seller fixes the prices at which the buyers are to resell his goods. Resale price maintenance generally means that the manufacturer fixes the price at which the retailer sells his goods to the consumers; and also the price at which the wholesalers sell to the retailers, in case the goods are handled by the wholesalers.

The question at once arises as to why the manufacturer wants to fix the resale price of his goods. What interest has he in the goods after they leave his hands? What does he care if the dealer gives them away or burns them up so long as he has his money? The manufacturer does not want the dealers to place too high a price upon his goods, as this would tend to limit the demand for them. Some manufacturers label their goods with the retail prices, partly to protect the consumers from overcharges by the dealers. Peculiarly enough, however, the manufacturers, in nearly all cases, complain of the dealers cutting the prices on their goods or selling them too cheaply; and not of the public being overcharged. This

fact leads many people to believe that retail prices set by the manufacturers are inimical to the interests of the consumers.

Development of demand for maintained prices.—The need for resale price maintenance, according to its advocates, has developed from the following facts. Until the closing years of the last century, most goods were sold unbranded and in bulk. With the rapid development of manufacturing in the years following the Civil War, competition between producers became very keen. As goods were unbranded and sold largely on a price basis, competition in prices resulted. In the attempt to get business, manufacturers were forced to lower the quality of their goods. Under such a system there was no incentive to maintain quality, as the producer was unknown to the ultimate consumers. In fact the manufacturer who did maintain quality was likely to be ruined. This deterioration in the quality of manufactured goods became very noticeable, and the expression "things aren't as good as they used to be" was very common. To escape from this situation many manufacturers started branding their goods and then telling the public through advertisements that the brands stood for certain qualities. When the consumers found that goods bearing a certain brand always had the same quality, they decreased their purchases of unbranded goods, which were of uncertain quality, and bought more of the branded goods, which were of uniform quality and dependable. The manufacturers of well-known brands were thus freed from the keen price competition, and enabled to maintain the quality of the goods and at the same time realize fair profits.

Then came the cut-price stores. A cut price on an unbranded article meant little to the consumers, as they had no assurance of its quality. The cut-price stores therefore advertised very low prices on well-known branded goods. Such goods were often sold below cost in order to draw people to their stores. The public, seeing a certain article sold by one store for a certain price, felt that this price was all that the article was worth, and believed that the dealers with higher prices were overcharging them. They refused to buy this article from such dealers. These dealers in turn refused to buy the article from the manufacturer. The manufacturer found his sales limited to the cut-price stores, and even these

stores could discontinue his line if it lost its drawing power. The manufacturer found that his advertising campaign was wasted. He therefore attempted to prevent the dealers from selling the goods for less than the prices fixed by himself.

Rebuttal by opponents.—The opponents of resale price maintenance do not admit all of the foregoing statements. They deny that a cut price hurts the reputation of an article. They say that when a person buys a branded article at a cut price, he feels he has secured a bargain and not that the local dealers are overcharging him. Such low prices stimulate sales and get the product into the hands of new users. If the product really has merit they are likely to become regular users. Cut prices are thus in the interest of the manufacturer and should be encouraged by him. A great many manufacturers seem to take this position, and offer no objection to cut-price stores handling their products. Other manufacturers do all in their power to prevent their products being sold at cut prices.

Has the producer an interest in his product after it leaves his hands?—The advocates of maintained resale prices argue that the manufacturer, through his advertising, really sells the goods to the consumers; that the dealers are only distributors, that they have little or no part in the creation of demand; that the goodwill in the product belongs to the producer and that anything that hurts the goodwill of the product hurts the manufacturer. The opponents, on the other hand, argue that the manufacturer has no interest in the goods after he has sold them and has received his pay; that the dealers really make the sales; that the manufacturer has no financial interest in their stores, and hence, has no right to dictate their gross profits; that operating conditions are different in different parts of the country and in different stores, hence, the dealers are the only ones in a position to know what prices are necessary to cover operating expenses and leave a fair profit; and that so long as the dealers do not alter or misrepresent the goods, the manufacturer's goodwill is in no way injured.

Legality of resale price maintenance.—The right of the producer to fix the resale price of his goods has been much disputed. Many cases have reached the courts and the decisions rendered are most confusing to the layman. The legality of resale price maintenance under existing laws cannot be said to be fully determined. The decision of the Beechnut case

by the Supreme Court, apparently makes it impossible for a manufacturer, who sells through wholesalers, to legally require these wholesalers to demand that the retailers sell to the consumers at the price fixed by the manufacturer. Under the decisions so far rendered it appears legal, however, for the producer, selling direct to the retailers, to suggest the resale price to the retailers; and, in the absence of monopoly, refuse to sell to those retailers who do not observe the suggested prices. This is based on the right of sellers to choose their own customers. The producers cannot force the dealers to observe these prices, and any contracts binding the dealers to sell only at specified prices are invalid. The only weapon of the producer is the refusal on his part to sell to cut-price stores.

The producer can legally maintain his prices by retaining title to the goods until they reach the consumers' hands. This can be done by selling to the consumers direct, or by consigning the goods to be sold on a commission basis, to the dealers. This method, however, is unsuited to the use of most manufacturers' and farmers' coöperative associations.

Proposal to legalize resale price maintenance.—For several years past, proposals granting producers the right to fix the resale prices of their goods have been advocated. Several bills granting this privilege have been introduced into Congress, but so far none have been passed. The agitation for the passage of these bills has shown a great difference of opinion among business men, as to the desirability of allowing producers to dictate the resale price of their goods. Most of the manufacturers of branded and widely advertised goods, and most of the small retailers appear to favor such a law. On the other hand, most of the cut-price stores, chain stores, department stores, and dry goods stores appear to oppose the passage of such a law. Many manufacturers and dealers are indifferent. In order to protect the public, most of the proposals contain the provision, that before a resale price may be fixed it must be approved by a government agency, such as the Federal Trade Commission, which would pass on the reasonableness of the price. Some of those who favor the principle, oppose the passage of such a law on the ground that it would be an opening wedge for government regulation of prices. Some manufacturers prefer to take their chances of

maintaining prices by a refusal to sell, rather than submit to government supervision.

Is resale price maintenance in the interest of the consumers?—The right of the producers to fix the resale price of their goods should be predicated upon the interests of the consumers. Producers and dealers both exist for the sole purpose of satisfying the wants of the consumers. There is, however, a difference of opinion as to whether price maintenance is in the interest of the consumers.

The advocates of resale price maintenance claim that it is in the interest of the consumers. They argue that it insures the public receiving a good quality of goods. Without resale price maintenance the quality is said to deteriorate. The practice insures a fair price to the public since the manufacturer allows the dealers only a reasonable profit. The manufacturer is interested in increasing his sales, and so fixes a low resale price. Some dealers object that the margin allowed them is too small. The dealers, however, can handle advertised branded goods more cheaply than other goods. The customers ask for such goods by name. No time is lost in assuring the buyers as to the quality, nor in waiting for them to make up their minds. With such articles as groceries or drugs, about all the retailers have to do is to wrap up the goods and make change. Goods with fixed resale prices are often package goods, in which case there is no loss to the dealers and no time is needed for weighing or measuring the goods. It is further argued that cut prices involve no saving to the buyers. Cut-price stores, it is claimed, simply use well-known goods as loss leaders to attract people to their stores, and more than make up for such loss on other goods.

Resale price maintenance said to be opposed to interest of consumers.—The opponents of resale price maintenance argue that maintained prices are opposed to the interests of the consumers. The only protection for the buyers is to shop around and buy goods where they can get them the cheapest. Maintained prices prevent the efficient merchants from passing the benefits of their efficiency on to the consumers. It is well known that some efficient stores with quick turnovers can afford to sell goods cheaper than less efficient stores with slow turnovers. It is argued that the right to maintain prices simply means that the producers can spend millions for adver-

tising, and then tack the cost of advertising on to the cost of the goods and force the consumers to pay the bills. It is denied that maintained prices lead to a higher quality of product. It is claimed that mail-order houses, chain stores and other large distributors of articles in common use can buy the same quality of goods, without the makers' brands, much cheaper than the makers will sell their branded products to the ordinary dealers.

Economy stores.—It is further argued that maintained prices make no allowance for economy stores. This is not inherent in the proposal for maintained prices. The producer of a well-known brand of baking powder, who has fixed resale prices for several years, has frankly recognized that different stores perform different services, and has allowed for a corresponding variation in price. For example, a can of baking powder with a retail price of 15 cents may be sold for 14 cents by a store furnishing credit or delivery service (but not both), and for 13 cents by a cash-carry store. We also have self-service, cash-and-carry stores, with still lower operating expenses. Many manufacturers have not recognized the difference between economy and other cut-price stores. The cash-carry plan affords people who desire to economize an opportunity to do so. Any plan of maintained price that does not allow for cash-carry, self-serve, and other types of economy stores is plainly not in the interest of a large class of consumers.

Additional arguments in favor of resale price maintenance.—Some other arguments that have been advanced in favor of resale price maintenance are as follows:

1. It prevents the consumers from being overcharged by profiteering dealers.

2. It keeps the small dealers, especially the neighborhood stores, in business. It is argued that these stores fill a real need and that unlimited price cutting by the large stores would force them out of business.

3. It keeps competition alive and prevents monopoly. It is argued that unrestrained competition and price-cutting leads to widespread business failures, out of which the strongest concerns emerge as monopolies.

4. It prevents unfair practices and puts business on a

higher plane. Resale price maintenance does for business what the rule against hitting below the belt does for boxing.

5. It enables the manufacturer to get the advantage of his advertising. It is denied that advertising adds to the price to the consumers, the argument being that advertising cuts down the other expenses of marketing and so enables goods to be distributed as cheaply as if they were not advertised.

Additional arguments against resale price maintenance.—Other arguments against resale price maintenance are as follows:

1. It keeps the inefficient dealers in business. The consumers should not be taxed to support dealers who cannot hold their own under free competition, as is done when all dealers are allowed the same margin of gross profit.

2. It is unfair to the dealers as it prevents sales to stimulate business during dull seasons.

3. It prevents dealers from disposing of soiled or shelf-worn goods; and likewise prevents them from cutting prices on goods on which they are overstocked. These objections, however, are not inherent, as some proposals provide that if the manufacturer refuses to take back such goods the dealers may sell them at reduced prices.

4. It makes the dealer a mere slot machine. This is not necessarily an evil if it is a more efficient method of distributing goods.

5. It is unfair to small manufacturers who cannot afford to advertise extensively. Such manufacturers would be eliminated, and the business left in the hands of the large manufacturers who would gradually monopolize the market.

Conclusions on resale price maintenance.—Maintained prices are less common than a few years ago. There appear to be three reasons for this. First, the questionable legality of the practice. Second, the rapid changes in prices during the past decade. A maintained price doesn't mean much unless it remains stationary for a considerable length of time It is very difficult to maintain prices, except in the case of articles, the production costs of which are a small part of the selling prices, during periods of rapid or large changes in prices. This is due to the changes in production costs and to

the varying sizes of inventories of different dealers. Prices of the same articles have varied in recent years owing to the time of purchase by the retailer and whether he was selling on the basis of original or replacement costs. Under such conditions uniform resale prices were not only difficult to maintain, but were of questionable desirability. As prices become more stable the agitation for maintained prices is likely to increase. Third, the realization on the part of many sellers that the importance of uniform prices has been over-emphasized, and that under present conditions cut prices injure their business little, if any. The public is becoming accustomed to different types of stores—the downtown, neighborhood, chain, cash-carry, self-serve, and mail-order stores—and hardly expects the prices to be the same in all.

Maintained prices are some protection to the buyers at small neighborhood and out-of-the-way stores, and at stores having little competition. Producers of highly advertised "convenience" goods depending largely upon the small stores for their distribution may be benefited by uniform resale prices. Such prices insure the small store a margin upon which to operate. Producers of "shopping" goods find resale prices of doubtful use in extending sales. Operating costs of different stores vary. Dealers like to reduce prices to stimulate business during dull periods, and the consumers like to shop around and are apparently entitled to any savings to be made by so doing. Shoppers are more likely to buy a non-advertised article than will the person hastily making a small purchase at a convenient store or stand. The non-advertisers, of course, seldom try to dictate the resale price to the dealers.

Resale prices that do not allow for chain stores, cash-carry stores, self-serve stores, and other stores furnishing different amounts of service are opposed to the interests, not only of these stores, but of a considerable part of the population.

Cut prices from the dealers' viewpoint.—In the foregoing paragraphs we have discussed resale price maintenance. Assuming that the dealers have full power to cut prices, what are the advantages of this policy from their standpoint? This depends upon how far prices have to be cut and how much such cut prices increase sales. In other words will the cut prices increase gross profits more than the increased volume increases expenses?

Suppose a dealer has sales of $100,000, cost of sales of $75,000, and expenses of $20,000. This gives him gross profits of $25,000 and net profits of $5,000. Suppose that he cuts the prices on 10 per cent of his stock to the cost of the goods to him, and that this reduction doubles his sales of the cut-price articles and increases the sales of the balance of his stock by 20 per cent. His sales would then be $124,000 (20% increase on $90,000 and $20,000 cut-price goods sold at 25% discount); his cost of sales $96,000, and his gross profit $28,000. If his expenses remained stationary his net profits would be increased $3,000. It is very likely, however, that his expenses would be increased somewhat by the increased volume of business, and by the necessary advertising so that his net profits would be little if any larger. Now suppose that he reduced the prices on 10 per cent of his goods by only 20 per cent and that the sale of these goods was doubled and the sale of his other goods was increased by 50 per cent. His total sales would now amount to $151,000 ($90,000 increased by 50% plus $20,000 cut-price goods sold at 20% discount), his cost of sales to $116,250, and his gross profit $34,750. He could now pay considerably larger expenses and still have larger net profits than before starting his cut-price policy. In both of these examples it has been assumed that no prices were increased to compensate for the cut prices.

From the two above examples it is clear that to be successful a cut-price policy must result in a considerable increase in sales. If the increase is small the policy will very likely result in lowered profits. On the other hand, if sales are increased 50 to 100 per cent, the policy is likely to be very profitable. The location of a store, its advertising methods, and its reputation may determine whether it can operate on a cut-price basis successfully. A neighborhood store draws trade from a very limited area, for which reason it may be unable to increase its sales materially by the use of cut prices. A store located in a shopping center, however, may be able to increase its sales considerably by relatively small reductions in prices, if these reductions are properly advertised.

Odd prices—In the foregoing discussion we have not specifically mentioned the importance of odd prices in attracting retail buyers. As a rule people like to purchase articles requiring few coins, 5c., 10c., 25c., 50., and $1. This objection to

prices requiring several coins is, however, very largely overcome if the buyers feel that they are getting reduced prices; hence such odd prices as 23c., 29c., 48c., and 98c. Slight reductions of 1, 2, or 3 cents may stimulate sales considerably. The idea of price reductions at times may be given by raising instead of lowering prices. The statement has been made that more articles can be sold for 11 cents than for 9 cents, because 11 cents suggests a reduction from 15 cents, while 9 cents only suggests a reduction from 10 cents.

Conclusions

All manufacturers and dealers should give careful attention to formulating their price policies. Some manufacturers may find it to their advantage to sell on the same basis to all buyers; while others may find it desirable to give different buyers different prices according to their position in the trade or the quantity purchased. Some producers may find it desirable to make price concessions to secure large orders; while others with well-known products may find that such price concessions sooner or later react to their disadvantage. Some dealers may find it the part of wisdom to use the same percentage of mark-up on all goods and to hold to the same prices the year around. Other dealers, especially those handling style goods, may find it good policy to mark the goods for very high profits early in the season, and then to make successive price reductions on the unsold portions until a part of the goods may be "closed out" below cost. Some dealers may find that off-season sales are very profitable; while others may find that such sales only secure business which they would get without such sales at the regular prices.

The demands and the psychology of the buyers, the policy of competitors, the quality of the product, the cost of production, the method of distribution, and general business conditions should all be considered in the attempt to determine the most desirable price policies.

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The various trade and business papers contain many interesting and instructive discussions of various aspects of the various problems.

Questions—Chapter XXV

1. The Adams Company manufactures grocers' specialties and sells to the retail dealers direct. It has adopted the policy of selling to all dealers at uniform prices. A large chain store demands a price concession. If it is refused the chain store will likely secure similar products to be marketed under its own brands. Owing to bulk shipments, small selling expense, and cash payments, the price offered by the chain store will yield a fair profit. The price, however, will enable the chain store to undersell the other retail grocers who will probably complain bitterly. With this feeling they cannot be depended upon to push the Adams line. Many of them may substitute other lines not handled by the chain stores. Should the Adams Company sell to the chain store at the low price?

2. The Hickory Plow Company manufactures tillage implements which are sold to the retail dealers throughout the Middle West, East and South. The implements enjoy a high reputation among the farmers. The company would like to sell to all retailers at the same price except for freight and a slight allowance for the quantities purchased. There are, however, many small factories in the East and South that have been in business for years. The implements made by these local plants are well known in the counties surrounding their factories. Because of low overhead expenses and low delivery costs to the dealers these local companies can undersell the Hickory Company in the territories adjoining their plants. The Hickory Company can get little more for its implements than is asked by the local concerns, owing to the reputation which each of the latter has in its own territory. To meet these prices would mean that sales would have to be made at cost or at a very small profit. To pass by these territories would mean the loss of a large volume of business. What policy should the Hickory Company adopt?

3. The X Company makes a high-grade line of cooking utensils, which are sold to the consumers by specialty salesmen and to the retail hardware, and department stores. When the Company was started the retail stores failed to place the line on the market so that the company employed specialty salesmen. These salesmen are still given the exclusive right to sell certain "specialties." The standard line, however, is sold in many territories by both retail stores and specialty salesmen. The goods now are so well known that the larger stores frequently feature the goods as leaders at cut prices. These cut-price sales mean increased sales for the X Company and also help to get the utensils into new homes. They, however, arouse the ire of the small hardware stores and the specialty salesmen. The latter often complain very bitterly of these cut-price sales, saying that they make it almost impossible for them to make sales even of the specialties. Should the X Company refuse to sell to stores that cut the prices of its goods?

One student of the problem suggests that the company allow the retail stores to run special sales for short periods on a few specified utensils which are not important to the specialty salesmen. Stores that go beyond this in cutting prices are to be cut off the list of customers. Discuss this proposal.

4. The Bristol Company manufactures watches which are nationally advertised. Enumerate the advantages and disadvantages of maintained resale prices to the Bristol Company and to a retail jeweler who handles this watch in a town of 10,000 people.

Would the situation be the same if the company produced hosiery, kitchen cabinets, shoes, baking powder, typewriters, or candies?

5. The Springfield Company manufactures overalls and work shirts which are sold to the retailers on a delivered (freight prepaid) basis. Assume that the price of cotton and of most textiles is declining. There is a large amount of unemployment which curtails the demand for the product. The dealers are afraid of price declines and so are buying only from hand to mouth. The Springfield Company's salesmen are getting few orders except for fill-in sizes. The plant is working only part time and may have to shut down entirely in the near future. The company, in order to stimulate sales, considers guaranteeing the dealers against a decline in prices for ninety days after purchase. The proposal is that if the company reduces its prices within ninety days after a dealer has purchased a shipment of goods, he will be given a rebate equal to the price reduction on the amount of goods in stock on the date the price reduction is announced. What risks will the Springfield Company assume under the proposed scheme? Is it advisable under the circumstances?

6. The Baldwin Company manufactures rugs and carpets. Prices are falling and the consumers are delaying their purchases in the hope of securing lower prices. Guaranteeing the dealers against price declines would do little good, as most of the dealers have full stocks. The company, therefore, proposes to allow each dealer to guarantee the consumers against a decline in prices for a period of six months. Under this policy the local dealer would mail a check to each buyer in case the Baldwin Company reduced its price within a period of six months after a rug or carpet was purchased. Would this be a successful method of stimulating sales? What problems would it involve? Would it be advisable under the circumstances?

7. The Williams Wholesale Grocery Company each year handles several hundred thousand dollars' worth of canned goods. It is customary to contract in the spring for a very large part of the next season's needs, deliveries to be made in the fall after the goods are packed. Binding contracts may be made at specified prices; the price may be named, but the seller may guarantee the buyer against declines in his own prices; contracts may be made on the s. a. p. basis. Outline the advantages and disadvantages of each of the contracts, from the Williams Company's point of view and from canner's point of view.

8. The Corner Drug Store is located in a small business district in a middle-class, residential neighborhood. The corner where it is situated is a transfer point for street-car passengers. Within a block are located: three grocery stores, two butcher shops, one barber shop, one bakery, one notion store, three tailor shops, one fruit and ice cream store, and one millinery store. There is no other drug store for six blocks. In the past this store has been operated along very conservative lines. No prices have been cut and, justly or unjustly, the store has gained the reputation of being high priced. It comes into the hands of a new owner who makes a survey to ascertain the cause of the store's relatively small sales. The survey shows that many people living in the neighborhood dislike the store because they believe its prices high. Many of them make a practice of buying downtown, or when in other neighborhoods, and only patronize the Corner when in a hurry or in emergencies. What should the new owner do to build up his sales?

9. The *Journal of Commerce* of November 11, 1922, contained the following:

"The Armour Grain Company . . . announces that it has, at the solicitation of the receiver of the Cleveland Macaroni Company, which went to the wall some time ago, purchased the rights to the 'Golden Age' brand of macaroni, with other brands and the plant, and hereafter will maintain them in their well-established place in

the market. In the circular . . . (The Armour Co.) . . . plainly states what happened to the Cleveland Company and why.

" '. . . During a ten-year period up to 1916 its business on 'Golden Age' macaroni products had been developed from a small beginning to that of the largest selling macaroni in this country, and that by 1916 its growing business required enlarged facilities, resulting in the erection of the present magnificent plant in Cleveland at a cost of nearly a million dollars. This plant was completed in 1917, when the business encountered wartime restrictions, and the company found itself with tremendously increased facilities and overhead charges, and expenses correspondingly enlarged, but with a diminished supply of raw materials available. They, in common with others in the industry, were also required to use certain substitutes for wheat, which resulted in a deterioration in the quality of their products.

" 'After the armistice and the removal of the restrictions the company discontinued the use of wheat substitutes and, in order to clear the market of products containing substitutes, put out under the 'Golden Age' brand, accepted returns from the trade with a resulting loss of many hundreds of thousands of dollars.

" 'In addition to this very disastrous experience the management of the company determined to maintain a retail selling price of 10 cents per package for its products in the face of mounting costs of raw materials, labor, freight, and cartons . . . by cutting down the weight of the contents of the package from eight to seven, to six, to five, and ultimately to four ounces. It kept the size of the carton the same at four ounces as it was at eight ounces, but slack-filled the packages, and did all this without notification to the trade that it was being done. This policy met with practically universal disfavor among the trade.' "

Criticize the policy of this company in enlarging its plant in 1916, in allowing dealers to return large quantities of goods containing substitutes required by war regulations, and in slack-filling packages in order to maintain the customary resale price. Do you think that a careful forecast of future conditions would have prevented the enlargement of the plant in 1916? Is slack-filling to maintain the usual price good policy under any conditions? Would it have been better to have reduced the size of the package and maintained a price of ten cents? Would it have been better to have kept the size at eight ounces and increased the price?

Chapter XXVI

MARKET ANALYSIS

A market analysis may be defined as a scientific or methodical determination of what and how much should be produced or purchased, and where, when, and how it should be sold.

What a market analysis may do:—

1. Suggest changes in product.
2. Suggest changes in selling methods.
3. Suggest changes in direction or location of sales efforts.
4. Suggest changes in type of appeal.
5. Suggest changes in type of advertising.
6. Suggest changes in advertising mediums.
7. Furnish a basis for production programs.
8. Estimate the potential sale of a product.
9. Estimate the strength of competition.
10. Show the advantages possessed by various competitors, in products, in advertising, in price, in profits, and in other factors.
11. Furnish a basis for dividing salesmen's territories.
12. Furnish a basis for setting salesmen's quotas.

In other words a market analysis should furnish correct data in place of guess work in solving problems connected with marketing.

What a market analysis considers.—In making a market analysis the investigator may start with a study of the product; he may study the company, the industry, the sales and advertising methods employed, and competition. He may study the present customers, their location, type or class to which they belong, their reasons for buying, the quality of product preferred, the advertising which they read, their habits, and so forth.

A study of a concern's present customers often reveals weak spots in the present distribution; for example, a store may be much weaker in some sections of the city than in others; or a manufacturer may find that certain territories are responding

very poorly to sales efforts. Some concerns use the Hollerith machines for tabulating salesmen's reports, to show each town or county covered and the products sold in each locality. Such a study often reveals that some salesmen are skimming their territories and that other salesmen are not pushing the full line. When the weak spots have been located, steps can be taken to find the trouble and then to remedy it. Perhaps advertising has failed to reach certain communities, or the salesman is overlooking good prospects.

A market analysis very often aims primarily at estimating potential demand for a given product. It wants to ascertain who the buyers are, where they live, how many there are, how much they will buy, their likes and dislikes, what factors influence their purchases, and how they now satisfy the want which the commodity will satisfy. Whether it be electric washing machines, milking machines, raisins, overalls, radios, tractors, baby buggies, or automobiles, the nature of the problem is the same—who and how many will buy, and how can they be reached.

Sources of information.

There are two main sources of information—first hand, and second hand, or published. In beginning a market study, it is ordinarily best to start with the second-hand information and find out what is already available on the subject. This will save time that otherwise might be spent in gathering information which is already available. Six sources of second-hand information may be mentioned.

1. Libraries.—Perhaps the best place to start is the library, public or private. In the library the investigator will look to see what, if any, bibliographies are available on his subject. Next he may consult the library's card indexes under subject and title, the *Reader's Guide* for references to the more popular type of periodicals, and the *Industrial Arts Index* for more technical subjects. The investigator may find that certain general books are available on the subject which he is studying. These should be studied first as a starting point. Very often, however, no general books will be found on the narrow subject in which he is interested.

It should be remembered that the Library of Congress in Washington is supposed to have every book which is published

in the United States. In case reference is found to a book which in not in the local library, the local librarian will generally send to Washington for it, the only cost being the postage. If the reader is unable to find what he wants in a library he should not hesitate to consult the people in charge of the various departments. They are there to help and are generally very glad to do so.

2. Government reports.—A valuable source of information is government publications. The United States Government gathers and publishes a tremendous amount of information on a great variety of subjects. The Census Bureau is said to be the greatest compiler of statistics in the world. It has figures on a great variety of subjects—population, occupation, manufacturing, mining, agriculture, mortality, births, et cetera. The Bureau of Foreign and Domestic Commerce publishes valuable material on our foreign trade, on sales opportunities in foreign countries, and other subjects. The Department of Agriculture publishes very valuable information on a great variety of subjects relating to the production and marketing of crops. The Federal Trade Commission, the Department of Commerce, the Weather Bureau, the Treasury Department, and many other of the bureaus and departments publish information that may be very valuable in specific studies. The compilation of income-tax returns may be very helpful to the investigator with a product within the reach of certain income groups. Many of the State governments also publish valuable information. This is especially true of the State departments of agriculture.

3. Trade papers.—Trade papers may furnish the best information available in some fields. Trade papers exist for nearly every industry, and if the library does not receive copies of those which are desired, their names may be ascertained from people in this trade or from a newspaper directory and copies obtained from the publishers. Many of the general business papers, such, for example, as *System* or *Printer's Ink,* may contain helpful information. Some banks, especially the large New York banks, often collect and print valuable information on certain topics.

4. Research bureaus.—Sometimes helpful information may be found in reports of the university bureaus of business research or in the private research bureaus.

5. Trade associations.—Often-times the trade association has compiled certain information, statistical or otherwise, for its members or for the trade as a whole. Such information is not always given out to non-members, but a non-member may be able to secure it by applying to the secretary of his own association and asking him to take it up with the secretary of the association having the desired information. Some trade associations have valuable information and others have nothing. It is often very helpful to try the trade association, and even if they have no printed information to give out, the secretary may possess valuable general information, or make helpful suggestions.

6. Directories.—Often it is possible to secure lists of prospective buyers, or other groups, from trade, city, telephone, or credit directories. There are companies whose business it is to sell lists (names and addresses) of people engaged in various businesses and professions.

Miscellaneous.—Occasionally the investigator can get valuable information from chambers of commerce, banks, real estate companies, or railroads serving the towns or districts in which he is interested. Some newspapers make market surveys of the sale of various products in their territories. These surveys are generally made for advertisers and are not always available to the general public. A common type of survey made by newspapers is to have interviewers call on a representative list of retailers and ascertain the brands of particular products—salad dressing, chewing gum, cigars, and so forth—handled by the dealers. The interviewers also generally ascertain from each dealer which brand is his best seller, and his second best seller. Such surveys made before and after advertising campaigns may indicate to what extent the campaigns have been successful.

Kind of information available from secondary sources.—From secondary sources the investigator obtains figures on the population of various communities, by age and sex; the number of people gainfully employed in various occupations; the value of different manufactured products with number of employees and capital employed in various industries; exports and imports of various commodities; freight traffic moved over the railroads; bank deposits and clearings for various lists of banks; estimates of the income of the country both by

sources and States; acreage of crops planted and yield of various crops; price quotations for a wide range of commodities; financial statements for a long list of corporations; estimates of the stocks of several basic products on hand; the output of various products as compiled by trade associations; names of trade associations; names of concerns engaged in various industries and many other similar kinds of information.

First-hand information.—There are three sources of first-hand information:

1. Internal records.
2. Interviews.
3. Questionnaires.

1. Internal records.—Often-times the company making the market analysis will have internal records which will prove very valuable. If they do not have such records, the analysis may call attention to the need of keeping them. An example of how one company used its sales records in making a market analysis is as follows: The cards for 8,000 out of 25,000 customers were chosen. An examination of these records showed that one-third of the customers bought over $100 a year, one-third bought from $25 to $100 a year, and the other third bought less than $25 a year. Next it was found that 6 per cent bought over $1,000 a year, but that this 6 per cent bought over 85 per cent of the goods sold; 27 per cent bought between $100 and $1,000, and 12 per cent of the total sales. That is, 97 per cent of sales were made to customers buying over $100 per year. A detailed analysis of the purchases of these larger buyers showed that they did not buy the full line. Some articles had never been properly presented. Here then was the weak point in the sales effort, and the remedy was easily found.[1]

2. Interviews.—Interviews are often used in the early part of a market analysis to get general information and the lay of the land. The investigator may interview his sales managers, salesmen, customers, or men in the trade. Such interviews should prove valuable and help towards the mapping out of a fuller and more extensive campaign. The disadvantage of interviews is that they are too superficial and too general.

[1]Bradford, Ernest S.: "Research Methods in Marketing," in *Administration* for February, 1923.

3. Questionnaires.—One of the most-used instruments in conducting market analysis is the questionnaire. The questionnaire may be sent by mail or may be taken in person. Questionnaires may be carried by a concern's salesmen who obtain the desired information from their customers. This method's chief advantage is cheapness. At times it may be successfully used. If the salesmen are working on a straight salary and if they are thoroughly "sold" on the usefulness of the analysis and made to understand just what is wanted, they may be able to have the questionnaires filled out satisfactorily. Too frequently, however, salesmen prove a poor group to get the desired information. Their minds and interests are on selling. They often see no point to the questionnaires, and either do not return them, or fill them out carelessly.

At times questionnaires are filled out by newspaper reporters and correspondent investigators. Newspaper reporters may be cheap but will probably be more or less unsatisfactory. Correspondent investigators who may be obtained in different cities are much better, but, of course, more expensive.

Full-time investigators are best. They can be trained to get the desired information and to get it accurately; moreover, their full attention is devoted to the subject. The chief disadvantage, however, is the cost of engaging such workers.

The sending of questionnaires by mail is a very common method and is used because it is supposed to be much cheaper than personal investigation and because it is possible to cover a much larger territory, or many more buyers in this way. Starch[2], however, argues that questionnaires are not obtained much more cheaply by mail than by personal investigators. He says that it takes 2 cents for the letter, 2 cents for the return postage, and at least 1 cent for cost of stationery and mailing, and that if the return is only 5 per cent, or one out of twenty, this will mean a cost of $1 for each filled questionnaire. This is almost as much as the cost of securing filled questionnaires by personal investigators, at least where the persons being interviewed are close together, and the information is easily obtainable.

It is possible to send out a double postcard for 2 cents. Only a very few questions, however, can be asked in this way.

[2]Starch, Daniel: "Principles of Advertising."

Also, questionnaires can be printed in advertisements in the papers, but the return from such questionnaires is very small.

The return that may be expected on a mailed questionnaire varies with the class of people to whom it is sent, the general appearance of the questionnaire, and the letter that accompanies it. Some classes of persons will respond much better to a mail questionnaire than others. For example, it was found that the shoe repairmen refused to send in answers by mail but that pleasant investigators easily obtained the desired information.

Another disadvantage of the mailed questionnaire is that those answering it may be a select group. The mere fact that they go to the trouble of answering it shows that they have greater leisure, greater intelligence, greater interest in the subject, or some other reason for replying. For example, a questionnaire was sent to automobile owners; only 25 per cent of the replies came from Ford owners, whereas the percentage of Ford owners is much higher.

Some believe that a more honest expression of opinion is received by mail where the questions deal with subjects which people might hestitate to answer absolutely frankly by word of mouth. Starch[2] argues that it is better to obtain a much smaller number of questionnaires in person because they will be more accurate and present a truer picture. For example, 50 women interviewed in their homes were contrasted with 5,000 women interviewed in stores with regard to the reading of advertisements before shopping, with the following results:

50 women in homes	*5,000 women in stores*
52% read advertisements before shopping.	47% read advertisements before shopping.
32% usually read before shopping.	35% usually read before shopping.

Similar figures in a study of raisin purchases showed the following results:

50 women	*700 women*
7% buy in bulk.	6.6% buy in bulk.
93% buy in packages.	93.4% buy in packages.

These figures indicate that it is possible to obtain a fair sample from a small group.

To whom questionnaires should be sent.—Questionnaires may be sent to branch managers, salesmen, other employees,

dealers, present customers, and prospective customers. The object of the investigation, and the money available to carry it through will determine to whom questionnaires should be sent.

Rules for making questionnaires.—The following should be the guiding principles in the preparation of the questionnaire: brevity; blanks with room to fill in the answers; definite questions; clearness; avoidance of leading questions; and questions capable of statistical study. It is also suggested that one or two indefinite questions be asked to draw out opinions. Perhaps the most important thing, especially when the questionnaire goes out by mail, is clearness. A great deal of attention should be devoted to the choice of words. It is well to try out the questionnaire on some of our friends, or others, who know absolutely nothing about it and see if they understand what is wanted. We should also bear in mind the amount of detail that we can expect. Ordinarily questionnaires should be brief, but if they are sent to a selected list of people whose coöperation we may reasonably expect, they may be much longer and go into greater detail.

Boston Milk Survey.—The following questionnaire is presented for your study and criticism. It was used in a study made by the Bureau of Agricultural Economics of the United States Department of Agriculture and the Division of Markets of the Massachusetts Department of Agriculture.

Questionnaire used in a Market Analysis of the Consumption of Milk in Boston, 1922

Question 1: How many persons are there in your family?
Question 2: (a) How much fresh milk is used in your family daily?
(b) How much of it is used for drinking?
(c) How much cream is used in your family weekly?
Question 3: (a) How many infants drink milk?
(b) How many children, 3 to 6 years (inclusive) drink milk?
(c) How many children, 7 to 12 years (inclusive) drink milk?
(d) How many children, 13 to 18 years (inclusive) drink milk?
(e) How many adults drink milk?
Question 4: Is milk served at the school where your children attend?
How many of your children who drink milk at school do not drink it at home?
Question 5: (a) Why do those in your family who drink milk do so?
(b) Why do those in your family who do not drink milk not do so?
Question 6: What would cause you to use more milk?
Question 7: How much have you increased your consumption of milk in the last few years?

Question 8: How much more milk would you buy if it were 11¢, 9¢ or 7¢ a quart?
Question 9: How does your weekly milk bill compare with your weekly meat bill?
Question 10: How much condensed, evaporated or powdered milk do you use weekly?
Question 11: What uses do you make of condensed, evaporated or powdered milk?
Question 12: Why do you use condensed, evaporated or powdered milk?
Question 13: (a) How much cheese do you use weekly?
(b) How much butter do you use weekly?
(c) How much ice cream do you use weekly?
Question 14: Where have you seen fresh milk advertised?
Question 15: What do you remember about the advertising you have seen?
Question 16: What special features do you think should be advertised?
Question 17: Do you think that the consumption of fluid milk has been increased by advertising and other forms of publicity?
Question 18: Has such advertising and publicity influenced your family in consuming more fluid milk?
Question 19: Do you think a dollar spent for milk buys more or less in food value than a dollar spent for meat, fish, other foods?

The Boston milk survey, in which the foregoing questionnaire was used, was conducted by State and Federal authorities. It considered three things: first, the advertising done in the past and present to promote the consumption of milk; second, a questionnaire to determine the consumers' attitude toward milk; and third, the past and present consumption of milk. A brief summary of the results obtained in this analysis will illustrate the kind of information that such a study may be expected to develop.

One of the first advertising campaigns was conducted in 1918 to offset a curtailment of the consumption of milk caused by an increase in price.

Another advertising campaign was conducted in the spring of 1919, which involved the placing of 5,600 car cards, 200 insertions of newspaper advertisements, 900 lectures, and 70 performances of a play entitled "Milk Fairies." During 1921 the milk dealers used 56,000 lines in newspapers with a circulation of over 60,000,000 during the year. They made two principal appeals—health and economy. A slogan, "A quart a day, the doctors say," was also used.

The questionnaire was taken by personal interviewers to housewives in five sections of the city; 193 families totalling 912 people, of all stations of life, were interviewed. An abbreviated questionnaire was mailed to about 500 families, the return being about 20 per cent.

The average family consisted of 4.73 persons. The average family used 2.13 quarts of milk per day, or .45 quarts per person; of this, 67.7 per cent was used for drinking. The average family used 1.23 pints of cream per week, compared with .92 pints in 1919; 98.9 per cent of children from 3 to 6 years old, 92 per cent of children 7 to 12 years old, 86 per cent of children 13 to 18 years old, and 39 per cent of the adults drank milk. The average for all ages was 66 per cent. The percentage of children drinking milk was much larger than in 1919, but the percentage of adults was much smaller.

The reasons given for drinking and not drinking milk were as follows:

Those drinking milk:

Like it	114 persons	Urged to drink it	13 persons
Food value	50 "	Habit	8 "
Health	43 "	Miscellaneous	2 "
Doctor's orders	18 "		

Those not drinking milk:

Do not like it	70 persons	Prefer coffe, tea, etc.	29 persons
Too fattening	27 "	Does not agree with them	14 "
Price too high	11 "	Do not need it	10 "
Miscellaneous	1 "		

"What would cause you to use more milk?" was answered as follows:

Lower price	59 persons	Younger children	16 persons
Nothing	48 "	Better quality	8 "
More cooking	46 "	Sickness	5 "
Larger family	34 "	Miscellaneous	14 "

In reply to the question as to how much the consumption of milk has been increased during the last few years, 13 per cent said, "a great deal;" 28 per cent said "some;" 50 per cent said "no change;" and 9 per cent reported a decrease.

In replying to the question as to how much more milk would be used if it was cheaper, 45 per cent said they would use it more if it was cheaper; 48 per cent said they would not use more; and 6 per cent had no definite idea.

"How does your weekly milk bill compare with your weekly meat bill?" Twenty-two per cent said it was greater than the meat bill; 37 per cent said it was equal to from one-half to three-fourths of the meat bill; 30 per cent said it was equal to one-fourth or less of the meat bill; and 11 per cent did not know.

With regard to the amount of condensed, and evaporated milk used, the average was .15 pints daily per family, used largely in beverages and in cooking. It was used largely for convenience, although the consideration of price came second. It was used mostly in families without children.

The average amount of cheese used was .76 pounds per week. Ninety-eight per cent of the families reported that they used butter, while the consumption of ice cream was found to have increased greatly during the last few years.

As regards advertising, dealers' wagons were most remembered, with newspapers a close second, stores third, and street car cards fourth. The housewives thought that cleanliness and food value should be stressed in advertising and that little emphasis should be placed on price. Most people remembered cleanliness, price, food value, quality, and health, in the order named, as the appeals advertised.

The replies to the question as to whether they thought a dollar spent for milk obtained more or less food value than a dollar spent for other things, showed that 58 per cent thought it obtained more food value; 16 per cent the same food value; 12 per cent less food value; while 14 per cent had no idea.

As to the consumption of milk in Boston, figures showed that from 1917 to 1922 the receipts increased 17 per cent, while the population increased only 7 per cent. This would indicate that the advertising had been effective.

Presenting results.—Care should be taken in compiling and presenting the results obtained from the questionnaires. The answers should be tabulated and analyzed carefully. Much of the use made of the material gathered will depend upon the way in which it is presented to the officials for whom it is prepared, whether these officials are within the same organization or not. It is often well to prepare a brief summary to precede the full report. If the report is long it may be well to present it in installments, if it is to be presented to men who are very busy on other matters. Charts and graphs should be used, especially in the presentation of statistical material. At times lectures, slides, and pictures may be used to advantage.

Buying motives.—Very often one of the chief objects of the questionnaire is to ascertain the reasons why people buy or do not buy particular products. This is no easy matter; most of us buy things for different reasons and we do not always

analyze our motives. At times we are unwilling to state our reasons frankly. To illustrate, the Browns buy a more expensive car than they can afford in order to have a bigger car than their neighbors, the Smiths. The real reason is the rivalry between Mrs. Brown and Mrs. Smith. Mrs. Brown, however, would not give this reason on a questionnaire. The reason given might be "endurance," "comfort," or "speed." In spite of this limitation, valuable information is generally obtained.

A clothing store found the following motives, listed in the order of their importance, in the minds of mothers when buying boys' clothing:

1. Material
2. Durability
3. Style
4. Fit
5. Price
6. Comfort
7. Tailoring
8. Merchant's guarantee
9. Reputation of firm
10. Satisfaction or money back
11. Maker's guarantee
12. Wear like iron
13. Union label

In an investigation of the use of raisins, the following were given as the likes of the consumers: "taste good;" "make delicious dishes;" "high food value;" "good for health;" "contain iron;" "easily digested;" "relieve fatigue;" and "a beauty food."[3]

Such motives as these are very helpful to the sellers in determining the appeals to be emphasized in their selling and advertising activities. For example, the clothing store decided that it had been placing entirely too much emphasis on the manufacturer's labels. In the sale of boys' clothing the dealer's reputation seems to be much more important. The preferences of the buyers may also lead to changes in the product.

A manufacturer of men's underwear recently secured information in this way from 2,000 men, principally commuters in New York City, concerning their preferences as to underwear. A tabulation of the information showed that 23 per cent preferred medium weight two-piece woolen suits; 22 per cent preferred medium weight woolen union suits; 15 per cent preferred nainsook cotton union suits; 9 per cent preferred heavy woolen union suits; 8 per cent preferred balbrig-

[3]Starch: "Principles of Advertising."

gan cotton union suits; 7 per cent, heavy two-piece woolen suits; 5 per cent preferred nainsook two-piece cotton suits. The preferences of the other 11 per cent were scattered. As to color, 62 per cent preferred white; 22 per cent light tan or ecru, and 16 per cent gray. As to fit, 36 per cent preferred snugly fitting garments; 33 per cent medium fitting garments, and 31 per cent loose fitting garments. In buying underwear, 60 per cent of the men stated that they looked first for fit, while 21 per cent looked first for the weight desired.[4]

This information should be very helpful to both manufacturers of and dealers in men's underwear. The limitation on these figures is that other classes of men, and men in other parts of the country may have preferences very different from those of the New York commuters. The limitation in the use of questionnaires is the expense of getting enough filled out to reveal the actual demand from all classes of buyers in all parts of the country.

Measuring demand.—One of the chief objects of many market analyses is the determining of the potential markets for the products.

Before starting any kind of a manufacturing or mercantile enterprise, the available volume of business should be carefully estimated. A failure to do this may lead factories to be started for the production of articles the demand for which is too small to justify the expenditures; or stores to be located where there is a lack of customers. Some investors erected a $150,000 plant in New England to make an ingenious office appliance. When the plant was completed it was found that it could turn out enough machines in six months to supply the entire market for ten years.[5] This may be an extreme case, but it shows the necessity of carefully analyzing the market before launching a business venture. Many concerns have failed through a failure to analyze the selling possibilities of the product; through making a product unsuited to the market; by adopting the wrong selling policy to develop the potential demand; or through choosing a poor location for reaching the market. Many concerns have achieved success when they realized the limitations on the sale of the old product;

[4]Bulletin of Robert Reis & Co., quoted in the *New York Times* of October 24, 1920.

[5]Frederick, J. George: "Modern Sales Management," page 16.

and started to manufacture a new product or to change their old product so it would appeal to a larger number of buyers.

The Curtis Publishing Company a few years ago made an estimate of the trading population and the volume of department-store business in each city of over 5,000 inhabitants. Some sales organizations use such information to check the uniformity of their sales.[6] If a certain concern finds that in many communities its sales amount to $10 per million of general business, but in others that its sales are materially below this figure, it should look for the trouble. Due allowance must be made for the climate, race, and so forth, of the community. If such factors do not explain the small sales, search should be made in the concern's selling activities. Perhaps the salesman works the town hurriedly, or the concern has a poor local representative, or perhaps little advertising has been done in the community. Whatever the reason, when it is once found, intelligent attempts can be made to remedy conditions and improve sales.

Factors affecting demand.—Several factors must be considered in ascertaining the demand for different articles. The demand for foodstuffs, for instance, depends very largely upon the population. The entire population, with the exception of the babies, is a potential consumer of such articles as eggs, milk, baked beans, rice, and dried fruits. But even with foodstuffs, factors other than mere numbers must be considered. The wealthy buy more food because they waste more. The laboring class may need more nourishment, but they generally buy cheaper foods than the wealthier classes. Race, climate, custom, and occupation must also be considered. Much less food can be sold to farmers in a mixed farming district than to farmers in a specialized farming district, and much less to farmers in a specialized farming district than to city dwellers. The demand for many other products is much more limited. Tabulating machines, for instance, are limited to offices that have a large amount of statistical work to do. The buyers of raw cotton are limited to a thousand or so manufacturers, while the demand for cotton cloth and hosiery extends to 100,000,000 people in the United States. The demand for raw materials is ordinarily limited to the manufacturers using this

[6]Parlin, C. C.: "Merchandising of Textiles," page 16, published by the National Dry Goods Association.

product. The number of manufacturers of different products varies widely. There are, for example, about 7,000 merchant flour mills in the United States, compared with some half-dozen manufacturers of binder twine.

Income.—Mere population figures are useless in determining the demand for many articles, for example, automobiles. Few buyers could be found for an expensive car in a slum district, while a fashionable residential district might furnish a very large number of buyers. The same is true of clothing, to a very large extent. Well-to-do people buy more clothes than poor people. They also buy a different type of clothing. This is also true of furniture, rugs, musical instruments, and many other articles. The information desired for the sale of such goods is not the total population of any territory, but the number of persons in the various income groups.

Statistics of income.—The average income per capita is approximately $500 or something over $2,000 per family. There are about 1.7 persons per family gainfully employed, and the average income of each gainfully employed person is in the neighborhood of $1,200. Average incomes mean very little, however, when an attempt is being made to compute the selling possibilities of an article. The important thing is the number of people receiving different incomes. The following appears to be the approximate number of people receiving different incomes; it is based on studies made by the National Bureau of Economic Research:

Distribution of Personal Incomes in 1918[7]

Amount of income	*Approximate Number of Persons*	*Per cent of Total Number*
Under $500	2,000,000	5.4
$500 to $1,000	12,500,000	33.3
1,000 to 2,000	17,700,000	47.3
2,000 to 3,000	3,100,000	8.1
3,000 to 5,000	1,400,000	3.7
5,000 to 10,000	600,000	1.6
10,000 to 25,000	200,000	.5
25,000 to 100,000	41,119	.1
100,000 to 500,000	6,921	.006
500,000 to 1,000,000	369	.001
1,000,000 and over	152	.0004
Total number employed.....	37,550,000	
Total income $57,954,000,000.		

[7]National Bureau of Economic Research: "Income of the United States," Vol I.

From these figures it appears that less than one per cent of the individuals gainfully employed earned over $10,000 per year; and that less than 15 per cent received over $3,000 a year.

Single persons receiving net incomes of over $1,000 and married persons receiving net incomes of over $2,000 are required to file statements with the Federal Government. For 1920, 7,259,944 persons filed returns, which are summarized below.

Income Tax Returns for 1920[8]

Size of income	*Number of Returns*	*Per cent of Total Number*
$1,000 to $2,000	2,671,950	36.8
2,000 to 3,000	2,569,316	35.4
3,000 to 5,000	1,337,116	18.4
5,000 to 10,000	455,442	6.3
10,000 to 25,000	171,830	2.4
25,000 to 50,000	38,548	0.5
50,000 to 100,000	12,093	.2
100,000 to 300,000	3,254	.04
300,000 to 500,000	239	.003
500,000 to 1,000,000	123	.002
1,000,000 and over	33	.001
Total	7,249,944	

It must be remembered that a large amount of income is exempt from taxation, and that amounts reported on tax returns may be somewhat understated.

A large part of the incomes of those with moderate earnings, goes for necessities. This means that those products which, owing to their cost, can only be purchased by those receiving large incomes, can have only a limited sale. Yet purchases are governed by desire as well as by income. Many more automobiles have been sold than a few years ago it seemed possible to sell. Money has gone into automobiles, gasoline, tires, and repairs that would otherwise have gone into alcoholic drinks, jewelry, household furnishings, and musical instruments, for example.

Occupation.—The demand for many articles depends upon occupation. Only the farmers need farm implements. The demand for overalls is very largely limited to farmers, artisans and laborers. Only the railroads and industrial concerns that do their own switching are buyers of locomotives.

[8]United States Bureau of Internal Revenue: "Statistics of Income, 1920."

Carpenters' tools, however, may be sold to three classes of buyers. First, to carpenters who want good tools and who buy very largely on their past experience and the reputation of old brands. Second, to farmers who need substantial tools, but who are less particular about quality than the carpenters. Third, to the city dwellers who need a few tools for doing odd jobs. They do not need a high quality of tools, and seldom need to replace wornout goods. They are most likely to buy the tools they see advertised or those offered by the local dealers.

Other factors.—In measuring or estimating potential demand, our problem is to determine the number of people who can reasonably be expected to become purchasers. If we are selling blast furnace linings, we can only hope to sell them to blast furnaces, and many States will be passed without yielding a single prospect. Age must be considered. If we are selling boys' clothing, we need to determine the boy population; likewise if we are marketing infants' goods, we need to take into consideration the number of babies in a given territory. Then, if the product is only within reach of the fairly well-to-do, income must also be considered. In the sale of many products climate must be considered. Few heavy overcoats are needed in Florida, while few Palm Beach suits can be sold in British Columbia. Race, sex, customs, and habits must be considered in determining the demand for certain products. The problem is especially difficult in the case of new products.

Cotton pickers.—Suppose a successful cotton-picking machine were invented, which could be sold at a moderate price. A demand for this might be taken for granted, as the amount of cotton that can be grown is limited by the amount that can be picked. The picking requires a very large amount of human labor. Before production is started, the approximate demand should be ascertained, so that the proper production program could be planned. There are in the nine cotton States (Alabama, Arkansas, Georgia, Louisiana, Mississippi, Oklahoma, North Carolina, South Carolina, and Texas), 2,297,055 farms according to the 1920 census. Although some cotton is grown in Tennessee, Florida, and Virginia, this would be offset by the farms in North Carolina, Louisiana, Texas, Oklahoma, and in other so-called "cotton" States that do not raise

cotton.[9] Then the farms in Arizona, New Mexico and California raising long fibre cotton must be considered. The number of farms in the cotton-growing States could not be used, however, as a guide to the number of machines that could be sold, owing to the tenancy system and the census' definition of a "farm." A very large part of the cotton is grown by colored tenants who generally do not furnish the implements used. It is not to be expected that such tenants would purchase cotton pickers. The white owners of the land would furnish the purchasers so that one machine might be used to pick the cotton on several census "farms." The 1910 census gathered figures from 39,073 plantations, that is to say, from continuous tracts of land under single supervision and having at least five tenant farmers. On these 39,073 plantations were 398,905 tenant farms. Some of the white planters might buy more than one machine, but it certainly could not be hoped that one would be sold to each tenant farm, if, as assumed, one machine would pick a large acreage. The demand from these 39,073 plantations probably would be nearer 50,000 than 400,000. There are some three to four times as many landowners having two, three and four tenants as have five or more tenants. Considering these facts, the number of potential buyers in the South would be reduced from 2,297,055 to something like 1,500,000. To this must be added the potential buyers in the Southwest to get the number of potential buyers in the United States. This does not consider the possibility of sales to Egypt, India, and other cotton producing countries.

The rapidity with which the machines could be introduced would depend upon their accomplishments in actual operation, the saving involved in their use, and their selling price. When the market was once supplied, business could only come from replacement orders. The amount of business then obtainable would depend upon the average length of life of the machine. Suppose it is concluded that 1,600,000 of these machines can be sold, that it will take five years to secure complete introduction, and that the machines will last for an average of ten years. During the first five years, average sales of 320,000

[9] A better method would be to consider the number of farms by counties, the total number of farms in all cotton growing countries being ascertained. For illustrative purposes the author has not felt it necessary to do this.

might be expected. During the next five years, sales will be light, orders being received principally for repair parts and for machines to replace those that wore out in less than ten years. Foreign markets might be developed during this period. At the end of ten years, sales of 160,000 machines per year may be expected. Sales, however, will not be uniform for all years. They will be much larger in years when the cotton farmers are prosperous than in years when "times are hard."

Another factor that must be considered is the possibility that the picking machine will so cheapen production and increase the acreage of cotton grown, that many more than 1,600,000 machines will be needed.

Competition.—If the production of these machines is competitive, no one concern can expect to secure all the business, and plans should be made accordingly. If the original producer has a patent monopoly, he can make his plans with greater assurance. The probability, however, is that other machines will soon appear on the market either by an infringement of his patents, or by the development of different designs which will do the same work without infringing his patents.

Farm tractors.—Slightly different information is needed to determine the potential market for farm tractors. According to the 1920 census there are nearly six and a half million farms in the United States. How many of these farms can be expected to furnish buyers for tractors? This depends to a large extent on the size of the farms. Less than 20 per cent of the farms contain more than 174 acres. If the tractor is made so heavy that it can be used profitably only on large farms, the market is thus limited to something over a million customers.[10] Some of the larger farms may buy several tractors, but the demand could hardly exceed 1,500,000. If, however, a tractor is built that can be profitably used on smaller farms, the market will be greatly increased. Almost one-fourth of the farms range in size from 100 to 174 acres. Hence, a tractor suited to this size of farm will have over a million and a half possible customers. Approximately 45 per cent of our farms range in size from 20 to 99 acres. A tractor suited to such farms will have nearly two million possible

[10]Here again the census' definition for a "farm" should be remembered.

users. It cannot be hoped, perhaps, that a tractor will be placed on every farm, for the reason that some farms in hilly and mountainous regions can not successfully use them. The wisdom of developing light tractors adapted to the use of the small farmers, however, is apparent. Here, also, is the reason for the pulley. Many small farmers will not buy tractors merely for traction power; but when the tractors also furnish belt power for running the feed mill, separator, woodsaw, and so forth, the reasons for buying are doubled.

Automobiles.—The automobile industry has had a startling growth. The number of cars in the United States is shown by the following figures:[11]

Year	*Number of Cars Produced*	*Number of Cars Registered*
1895	300	300
1896	600	900
1897	1,200	2,100
1898	2,500	4,600
1899	4,024	8,624
1900	5,200	13,824
1901	7,066	20,590
1902	8,765	28,755
1903	10,528	38,083
1904	22,281	57,864
1905	24,128	77,988
1906	34,140	106,928
1907	42,199	142,061
1908	64,183	197,479
1909	124,246	311,197
1910	179,581	468,497
1911	195,165	639,514
1912	378,000	1,010,399
1913	484,500	1,248,056
1914	569,054	1,768,963
1915	892,618	2,494,912
1916	1,583,617	3,584,567
1917	1,868,949	4,970,671
1918	1,153,638	6,105,588
1919	1,974,016	7,596,503
1920	2,205,197	9,206,141
1921	1,661,550	10,505,630
1922	2,659,064	12,299,770
1923	4,012,856	15,222,658

[11]The figures for the years preceding 1912 are taken from the *New York Times*, of August 28, 1921. The figures for 1912 and later years taken from *Automotive Industries*, of February 21, 1924. The production figures for 1912-1923 do not include motorcycles, the production of which reached a high point of 70,000 in 1913, declining to 45,000 in 1923. For the years prior to 1912 the production figures apparently include only passenger cars.

Of the cars registered on December 31, 1923, 13,455,073 were passenger cars, 1,767,585 were trucks, and 176,630 were motor cycles. More than four-fifths of the automobiles in the world are in the United States. The demand for cars in the United States has increased so rapidly that attempts to estimate the potential demand have been failures. A few years ago it was estimated that the market would be saturated when 8,000,000 cars were in use. This figure was later changed to 10,000,000, then to 12,000,000, and then to 15,000,000. This last figure has already been passed. What is the saturation point? 20,000,000? 25,000,000? One guess seems to be as good as another. If the saturation point is reached at 21,000,000 and the average life of a car is six years, this would mean a production of 3,500,000 cars annually for replacement purposes. The average retail price of passenger cars was given as $811 in 1923, while the average retail price of trucks was given as $1,080.

The manufacturer of automobile accessories or parts has a pretty definite potential market, as he can only sell to those who have an automobile. The same is true of anyone who produces an attachment for a certain machine. Some 40,000,000 automobile tires were produced in 1923, of which 16,000,000 were used to equip new cars. If the average car uses three tires a year, the annual production of tires will be three times the number of cars in use. The length of a tire's life increases with improvements in the tire and with improvements of the streets and roads of the country. If such improvements reduce the average number of tires needed to two per year, then the annual production of tires will be double the number of cars in use. It seems that in the future a larger proportion of the tires will be used to equip new cars and a smaller proportion to replace worn-out tires on old automobiles.

The retailer's market analysis.—The retailer can use a market analysis to determine many important facts. He may use it in determining the proper location of his store; to determine the present location of his customers in order to decide in what sections, or classes, he is weak; to determine the buying power of the community, or the number of potential customers for his products; the papers read; which members of the family buy specific products; where the people of the

community buy at present, thus gaining an idea of his competitive strength in the community; and criticisms of his merchandise or policies.

Location of stores.—Many stores have failed because they have been located where there were too few customers or where business could only be obtained by taking it away from other similar stores. It was pointed out in a previous chapter that many chain stores never open a new store without counting the number of passers-by and noting their characteristics. Often a merchant fails to take this precaution and locates his store where there are not enough customers to justify the venture.

A survey may be made of a community at one time and the conclusion reached that it will not support a given type of store. A few years later an analysis may show that the community has grown enough to justify the establishment of the store.

Suppose that it is proposed to open a fancy grocery and delicatessen store in a small suburban town where there are several grocery stores, but none that carry a large stock of fancy groceries and prepared foods. Are there enough people in the town who would patronize such a store to make it a profitable undertaking? This depends not merely on the population of the town but on the character of the people. Such a store would be more likely to succeed in a town where many well-to-do people live, than in a town made up almost entirely of factory workers. It would be more likely to succeed in a town where many people live in apartments, than in a town where most of the people live in houses and where domestic servants are relatively plentiful. An analysis of the situation, showing the population of the town; the approximate number of families in the various income groups; the methods of living; and the buying habits of the groups that such a store can hope to reach will be helpful. Such an analysis will not ensure the success of the store, but it will show whether or not the store has a field for success, and what business it can hope to develop.

Locating weak spots.—A store may use a market analysis to find where its sales are weak. The salespeople may take the names and addresses of all cash customers for a typical period. The cash and charge customers may then be plotted

geographically. When this chart is compared with one showing the population, or one showing the location of potential customers, it will show where the store is relatively weakest and where it is relatively strongest. It may be found that sales are heavy in a new section of the city but weak in an old section. A search can then be made to find the cause and a remedy. It may be that its advertising has not reached the old section as well as it has reached the new. It may be that the store is "pulling" well from one class but is losing the trade of another class. This may suggest changes in the store's policies or the type of salespeople employed. It may be that its advertising and window displays have made a price appeal, which has allowed its competitors to take its customers who could best be reached by a quality appeal. This raises the question of whether one store can successfully cater to all classes at the same time. It may be able to do so to a considerable extent by making different appeals to different classes, and perhaps at times by having different departments for the handling of different grades of merchandise.

Measuring the buying power of a community.—The census will show the population of various cities, towns, and counties according to both age and sex. Bank deposits, pay rolls, assessed valuation of property, shipments of farm products, number of factory and railroad employees, and tonnage of various classes of freight shipped and received may be used in trying to estimate the income of the community. The school census may be used to ascertain the number of children of different ages. Questionnaires may be used to determine the average purchases of various products by the different classes in the community. To determine the demand for boys' clothing, the boy population may be ascertained from the school census and the average number of suits, overcoats, and other garments purchased annually for each boy, together with the average cost, determined by questionnaires filled out by mothers in different sections of the community.[12]

A department store in a small city had one department that had been losing money for many years. One manager after another was employed, and finally, one was obtained who made the department "break even." At first the owners of

[12] A combination of methods used in two studies summarized in Starch's "Principles of Advertising," chs. 6 and 9.

the store were happy, but the thought came to them that if the department could "break even," it could be made to produce a profit. They started out to ascertain the buying power of the community. They first consulted the census to get the population of the city and of the tributary townships. Realizing that buying power does not depend entirely on numbers, they also attempted to ascertain the number of people receiving different incomes. Permission was secured to inspect the payrolls of the various factories in the town. An idea of the income of the farmers could be obtained from the size of their farms, fertility of their land, the crops raised, and their living methods. From this information, the store owners were able to approximate the amount of the kind of merchandise in question, which was consumed in the community. This survey showed that business was available. Considering the number of competitors, however, it was apparent that this store was not receiving its share of the business, at least, measured by the proportion of the community's business which it received in other lines. This study showed that the trouble was within the department. Attention was centered on the department, and it was found that the firm had been too conservative in the purchase of goods. It had not kept up with the changes in demand, so that the people went to other stores to get up-to-date goods. A change in buying policies, together with a better display of the goods and more advertising, made this a profitable department.

Other uses by retailers.—Questionnaires may be used by stores to determine many things which are useful in formulating merchandising policies. The reasons for buying various commodities may be requested. The papers read, and what advertising is remembered are pertinent questions. "Where do you buy?" will obtain information to help a merchant determine the competitive strength of his own and his competitor's stores. Answers to the questions, "Is — bought by the wife? The husband? The children?" will help the store frame its advertising and its selling policies to appeal to those doing most of the buying. "Do you prefer a particular type of salesman? If so, why?" The answers to this question may show what qualities the members of the community desire in salesmen. A request for criticisms of the store may bring valuable suggestions and also show that the store is desirous

of improving its service. Other questions may be asked to obtain information that is particularly needed.

Determining demand by experiment.—The demand for many articles has been created. In such cases it is impossible to anticipate the public favor with which an article will meet. When aluminum cooking vessels were first produced, who could tell how they would be received by the public. The makers probably felt that they should be used in every kitchen, but the buyers, perhaps, would think otherwise. Long years of intensive selling activities have failed to attain this result. When the Eastman Kodak Co. first placed kodaks on the market it was problematical what sales could be expected. When a new product is proposed for which the demand is questionable, a small quantity may be produced and tried out experimentally in a certain territory. If the buyers in this territory like the article, its production may be increased. If they do not like it, the product may be changed to suit the consumers better, or its production may be discontinued. Hundreds of articles have been produced which never proved popular. Losses would have been reduced in many instances if the articles had been tried out experimentally. Yet the stores are full of articles that found no demand until the consumers were educated up to their use. Some new products, such as radio sets, come into widespread use very quickly.

Securing the estimated volume of sales.—Calculating the potential demand is one thing; and securing sales equal to the estimated volume of sales is another thing. Take the cotton picking machine which we assumed to have been invented. The makers determine that there are 1,600,000 cotton growers who should have the machine. Unless there is such a saving in its use as to drive the non-users out of business, it will probably take many years to sell this number of machines. Some farmers have hilly land; some grow only a very few acres of cotton; others may hire a neighbor's machine; and others may be unable to afford the machine. The makers may do well if they place 1,200,000 machines in use in five years.

The makers of washing machines feel that there should be a machine in every home. This distribution may never be realized. Families that employ laundresses may be indifferent, and poor families may be unable to afford such a machine. Manufacturers of talking machines, no doubt, believe that

every family should have an instrument. Extensive advertising and selling campaigns have so far failed to attain any such distribution.

The success of any industry, in stimulating sales, depends upon its success in educating the people up to the use of its products through advertising and salesmanship, and in placing its products within the reach of all possible buyers. The success of any individual concern in increasing its sales and getting ahead of its competitors, depends upon the plan of distribution employed, the price policies used, and the advertising and selling methods followed. Some of these policies will be discussed briefly in the following chapters.

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There are several sources from which specific information about different industries and communities may be obtained. Many government reports contain very valuable information. The various publications of the Census Office give information on the population and on the agricultural, manufacturing and mining industries. The Internal Revenue Bureau publishes statistics on income based on the income tax returns. The Department of Agriculture publishes many publications bearing on agricultural conditions, live stock, crop values, and so forth. The Bureau of Foreign and Domestic Commerce, of the Department of Commerce, publishes much information bearing on our foreign trade and on opportunities for the sale of American goods abroad. The Interstate Commerce Commission, Tariff Commission, Federal Trade Commission, and many other Government departments and bureaus publish information that may be very valuable in determining the markets for various products. Many States also publish figures showing the population, resources, and industries of their various counties and cities. For example, the 16th Biennial Report of the Commission of Agriculture and Labor of North Dakota

shows by counties the number of farms, acreage and yield of various crops, live stock, and live-stock products, population, farm labor, manufacturing industries, and so forth.

Trade papers and trade associations often gather and publish statistical information and directories of the trades represented. The man in search of information about any particular trade or industry would do well to secure the names of the papers and associations representing the trade, and ascertain what information they are able to furnish.

Directories: City, telephone, and trade directories often furnish helpful information.

Local chambers of commerce and boards of trade often are glad to furnish information about their communities. Real estate dealers and banks also may have such information for distribution. Railroads often can furnish information, at least of a general character, concerning the territories served.

Several of the newspapers make market analyses, especially on the sale of specific products in their territories. These reports are usually made for advertisers and are not always available to the general readers.

Questions—Chapter XXVI

1. Name some of the important factors that are helpful in determining the demand for different articles.

2. Name some of the sources from which information useful in making a market analysis may be obtained.

3. A printing plant covering three and a half acres, costing $3,000,000, and capable of producing 60,000 books a day, is reported in Kingsport, Tennessee. The plant is close to paper mills, coal mines, and the southern textile mills which will supply the chief raw materials. It is located where living expenses and wages are lower than in the large cities. It is also said to be much nearer the center of the bookreading population than New York. The idea of the promoters is to apply the principles of standardization and mass production to the printing of books. By printing books in lots of 500,000, it is said that the books can be printed cheaply enough to retail at ten cents. A printing concern in Girard, Kansas, is now turning out small paper-bound books to retail at five and ten cents apiece.

Assuming this plant to be practical from a production standpoint, do you think such an enterprise can be operated profitably? Can the books be sold in large enough quantities? What kind of books should be printed? How can they be sold? To what extent do you think the low price will stimulate the reading habit and increase the sale of the books?

4. Prepare one of the following:

(a) A questionnaire with plans for having it filled out by a manufacturer of condensed and evaporated milk, to determine: the average consumption of his products per family; why people like and dislike canned milk; how he can increase the demand for his product; and how to advertise his product.

(b) Plans for the market analysis for a retail paint store to determine: the demand for paint in the community; how the demand for paint can be increased; the competitive strength of the various local retailers and the mail-order houses; what advertising should be done; and what people consider when buying paint.

5. It is proposed to open a store handling the better grade of furniture, rugs and draperies in a manufacturing town of 25,000 inhabitants. The town is located in a rich farming district and has a large trade with the farmers. At the present time the stores handle only medium and low-priced furniture; the people desiring better grades of goods are forced to go to the larger cities for them. What facts should be ascertained before deciding to start such a store?

6. In recent years the sale of several calculating machines has been actively pushed by advertising and personal salesmanship. An inventor has what appears to be a better machine than any of those on the market. It is electrically operated. It is simpler than the present electrical machine and faster than the present hand machines. He has interested a group of capitalists in the proposition, but before putting up the factory they want a careful analysis of the selling possibilities of the machine. How would you proceed to get the desired information?

7. A wagon factory located in a Southern State had established a good reputation for its wagons, which were well liked by both farmers anl lumbermen. Competition in this section was very keen. Owing to the weight of a wagon, the high freight charges made it very hard for this concern to sell its wagons more than 150 or 200 miles from its plant. Its market was therefore limited. There appeared to be an opportunity for the profitable manufacture of buggies. A subsidiary company was organized to make buggies, the reputation of the wagons being counted upon to help introduce the buggies. The buggy factory was started in 1906 or thereabouts. At this time automobiles were just coming into general use, but as yet few had been sold in this section. Within a very few years automobiles came into use in this section, and in less than ten years they were so generally used that the demand for buggies had been seriously curtailed. Would a careful analysis of the market have prevented the organization of the buggy company?

8. The expansion of the automobile industry was sketched in the above chapter. The expansion in the phonograph industry has been nearly as marked. Sales are given as 540,000 in 1914; and 1,500,000 in 1921. There were estimated to be 6,000,000 talking machines in use at the beginning of 1922. In the meantime the sale of pianos had decreased from 300,000 in 1913, to 135,000 in 1921. This decline in the sale of pianos was in spite of increased advertising, price reductions, long installment terms, and in contributions to the work of arousing interest in music throughout the country. Someone has said that the social standing of a family was formerly determined by the ownership of a piano, and that now it is judged by the type of car driven.

What should the piano manufacturers do under the circumstances?

Chapter XXVII

CHOOSING A METHOD OF DISTRIBUTION

Importance of choosing proper method.—After determining that a market exists for his product, one of the first problems of the manufacturer is to choose the best method of reaching that market. This problem is so important that no manufacturing scheme should be launched without having the marketing method definitely planned. The problem also is of vital interest to established concerns. It has been previously pointed out that producers often change their methods of distribution because of the increases in the sizes of their outputs and organizations; unsatisfactory volume of sales; or changes in trade conditions. The volume of sales may depend, to a considerable extent, on the method of distribution.

Factors affecting choice of method.—The method chosen depends upon the product, the market to be reached, style, the number of articles to be marketed, and the size of the seller's organization. The manufacturer of farm implements or automobiles, owing to the large size of the machines, probably will secure branch houses or assembling plants, and sell to the retail dealers direct; while the manufacturer of a grocers' specialty will likely secure brokers to sell his output. The manufacturer of steel billets or heavy machinery, is likely to sell to the users direct because of the small number of buyers. On the other hand, the shoe manufacturer, owing to the large number of users, in all probability will utilize the services of the retailers and perhaps the services of the wholesalers also. The manufacturer of high grade ladies' ready-to-wear clothing is almost forced to sell direct to the retailers owing to the rapidity of style changes. The manufacturer of cheap hosiery, however, can just as easily sell through jobbers. The full-line manufacturer will be much more likely to sell direct to the retailers than will the specialty manufacturer. Finally, the large concern can better afford to choose a more direct selling method than the small concern, for the reason that its sales

are larger. A salesman for a nationally known and widely used product may be able to secure three times as many orders in a day from retail dealers as a salesman for a similar but unknown product. This may explain why the expense of the first salesman may be reasonable while that of the second may be prohibitive.

In order to determine the proper method in each case, we should have the various methods in mind together with the advantages, disadvantages, and limitations of each. Such information should be helpful in determining the most desirable method under any given set of conditions.[1] The operations of the various middlemen have already been discussed. The purpose of this chapter is to examine the usefulness of the various middlemen from the standpoint of the producer, who has goods to sell.

Disposal of entire output to one buyer.—The sale of the entire output of the factory to one buyer is perhaps the easiest selling method. The buyer may be a jobber, a chain store, a mail-order house, a department store, or another manufacturer. This method does away with the need of salesmen, sales managers, and advertising. Only one sales contract need be negotiated, and the organization is free to devote its entire energy to problems of production. If the buyer is able to take the capacity output of the plant and the price is adequate, this may be a very satisfactory selling method. This method, however, has many disadvantages.

Disadvantages.—The price is likely to be such that the profit will be moderate unless the seller has a very efficient plant. The manufacturer is unknown to the ultimate consumer, and hence derives no benefit from a high quality of product. There is a tendency for him to turn out a product that will barely meet the specifications of the buyer. As the goods do not bear the producer's brand, he has no good will with the public. He has no sales organization, no salesmen and only one buyer. He, therefore, is absolutely dependent upon his one customer. The buyer probably is aware of his position and may take advantage of it to "squeeze" the manufacturer when the contract is renewed. He may demand a price concession or other conditions which will bear heavily upon the

[1]The reader should review Chapter VI, "Trade Channels," at this point, unless it is fresh in his mind.

seller. If the seller refuses and loses his customer, he finds himself with an unknown product and no selling organization. He very likely accepts the seller's terms, and contents himself with a very small profit. The seller, however, may demand still further concessions at the next renewal. This may go on until the seller is ruined, sells out to the buyer, or until he faces squarely the very vital problem of building up his own outlet.

It must not be supposed that all buyers will try to take an unfair advantage of the seller. Some are broad-minded enough to realize that no permanent advantage is realized by ruining the sellers and destroying their sources of supply. Again, there may be many buyers capable of handling the seller's entire output. In this case the producer may play one buyer against another and secure an attractive price. This might be true, for example, with a paper mill which could sell its entire output to any one of a number of large newspapers, or the manufacturer of automobile parts, who may have several prospective customers. What we want to point out here is that the manufacturer who has only one customer has a very insecure market, and very little opportunity to build up any good will for his product.

Selling through a sales company.—Some concerns, instead of marketing their product themselves, organize a subsidiary sales company to handle the marketing end of the business. This arrangement leaves the producing company free for problems of production, while the sales company can devote its entire attention to the problem of distribution. This method is used most frequently with products that demand intensive selling efforts. The sales company, however, has to meet all the problems of marketing that would have been faced by the parent concern if it had marketed the product. No problems have been solved by the organization of the sales company, hence no attention need be given to it in this chapter.

Selling through sales agents.—Some manufacturers, as well as farmers' coöperative organizations, turn the marketing of all their products over to a sales agent on a commisson basis. Others appoint different agents in different territories. The manufacturer may place his brand on his goods so that he is in a position to get the credit for a high-quality product. He is relieved from the necessity of maintaining a large sales

organization, it only being necessary to exercise a general supervision over the activities of his agent or agents. The agent's remuneration depends upon his success in effecting sales, so that he is likely to be active in his selling activities. The agent's commission, however, is generally small, which means that he cannot be expected to do very much real intensive work in selling. If the producer so desires, he may stimulate his sales by advertising, or by having his agent employ specialty salesmen to call on the retailers, the extra expense being borne, of course, by the seller. If the sales agent secures a satisfactory volume of sales, the arrangements may prove very satisfactory and also very cheap.

Sales agents are very often used by small specialty manufacturers who are not large enough to maintain an extensive sales organization. Small textile mills and canners, as previously noted, often employ sales agents. Sales agents often help to finance the manufacturers. Sometimes they advance them money or endorse their notes, and at other times they guarantee the payment of accounts. There are limitations on the use of sales agents—they may be unable to dispose of the manufacturer's output except at cut prices; and since they ordinarily sell in bulk, they cannot be expected at any time to get more than the prevailing bulk price for the goods sold. It is possible, of course, for a manufacturer to create a consumer demand for his product by advertising, and so receive a higher price and a steady demand for it. In this case, however, he probably would feel that the sales agent was unnecessary. He would likely either handle his sales through his own organization or employ brokers at a lower rate of commission than paid the sales agent.

Selling through brokers.—In actual practice there is no clear distinction between the services performed by sales agents, brokers, and manufacturer's representatives. As a rule, the broker has less authority, less interest in the producer, and receives a lower rate of commission than the sales agent. Brokers are thus employed by concerns that are in a better position to exercise general supervision over the marketing of their products than the concerns that employ sales agents. Or it may be that a concern merely does not care to give an agent so much power, and yet is not in a position to maintain its own force of salesmen. As pointed out in Chapter IX,

brokers are very common in certain trades, notably groceries, textiles, and bulky raw materials.

Suppose a mill is organized by local capital to produce standard grades of cotton cloth. None of the promoters are familiar with the textile markets. The superintendent employed is probably not an expert on marketing, and besides, has little time to devote to it. Such a mill is almost forced to employ a sales agent or dispose of its product through brokers.

A company organized to manufacture a grocery specialty in all likelihood will sell through brokers. This is the established method, and besides, the maintenance of a large selling organization would be expensive. At first such a concern probably employs specialty salesmen also to do missionary work among the retail grocers. Advertising also may be necessary. This makes the selling expenses very high at first—brokers' commission, specialty salesmen's expenses, and advertising cost—but this is regarded as a necessary expense of breaking into the market. When the product is once established, the brokers may be expected to keep the wholesalers stocked up, while the number of specialty salesmen may be greatly reduced.

Concerns that maintain their own selling organizations may be glad to accept orders received through brokers and to allow them the customary commission. This is especially true when the market is dull and the sales light. At such times the manufacturer may utilize the broker to dispose of surplus stocks at low prices. The surplus may be sold unbranded at very low prices, while the price is maintained on the branded product to the regular trade. The regular customers may regard this as unethical, but the manufacturer defends his action on the ground of necessity. Concerns that have their own salesmen calling on the wholesalers may employ brokers to give advice and to solicit "fill-in" orders between the salesmen's calls. Brokers also may be employed by manufacturers of special equipment where there are only a few possible buyers in a town. The manufacturer would find it difficult to always have a salesman on hand when a buyer was ready to place an order.

The advantages of the brokers are that they are in close touch with market conditions; that they perform their services for low rates of commission; and that they are in a position to give valuable advice on market conditions. There are many disadvantages, however, in the use of brokers. They cannot

be expected to do intensive selling nor to push the product of any one buyer, unless they are granted exclusive rights, since they often represent several sellers. They generally deal in goods in bulk and cannot be expected to secure more than the prevailing quantity price. At times the seller may have to authorize his broker to cut prices in order to effect sales.

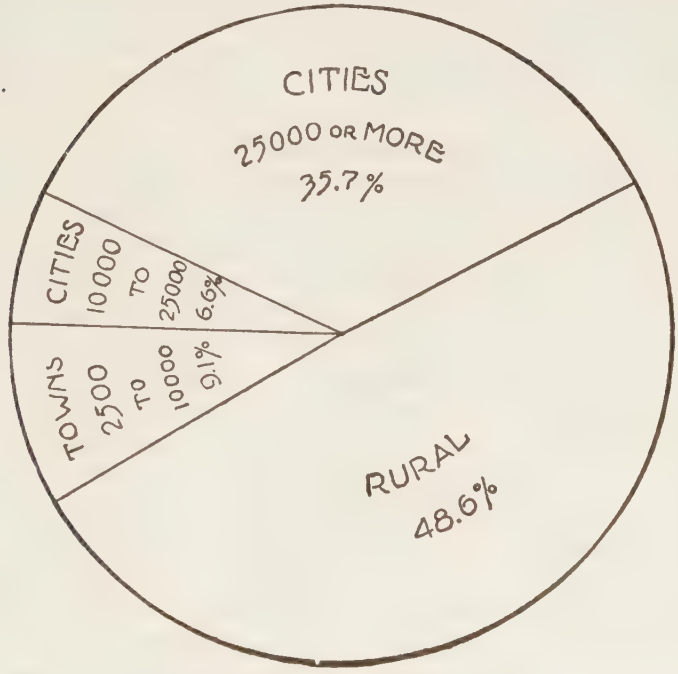
Selling to Wholesalers vs. Selling to Retailers

Manufacturers of products that are handled by the retail stores may sell to the retailers direct, or may reach them through the wholesalers. The ability of the producer to perform the jobbing function satisfactorily and economically will determine whether or not the retailer should be sold to direct. The jobbing function consists of soliciting orders from the retailers, warehousing the goods in locations convenient to the retailers, supplying the retailers with small lots of goods as needed, and extending the necessary credit. In deciding whether to sell direct to the retailers or to the wholesalers, the manufacturer should consider his ability to perform these services economically. Some manufacturers, in order to increase their sales rapidly, or in order to carry their policies direct to the retailers, go direct, even though the net price received after paying selling expenses is less than could be obtained from the wholesalers.

Soliciting orders.—The ability of the manufacturer to solicit orders direct from the retailers depends upon the size of his sales organization and the nature of his product. If his product is one that is generally used it will require a large number of salesmen to call on any large proportion of the retailers with any degree of regularity. Take a manufacturer of a staple food for example. There are approximately 400,000 retail dealers in the United States handling foodstuffs. If this manufacturer expects to cover only one-third of the country, he has over 125,000 prospective customers. In a city a salesman may "call" on two or three dozen retail grocers in a day although it is impossible to deliver anywhere near this many real sales talks. In sparsely settled rural districts a salesman can scarcely average more than four or five calls a day. If 240 calls a month be taken as the average, it will require 520 salesmen to make the rounds each month, and 173 salesmen to make the rounds once every three months. The employment, training, and

supervising of this number of salesmen is a big problem. District sales offices may be necessary. In other lines, such as shoes, hats, or clothing, there are fewer retailers, but a salesman can call on fewer dealers a day. The salesmen who must show samples can make fewer calls. From this it is plain that the concern that would sell to any substantial part of the retail trade direct, needs a large organization.

Hitting the high spots.—It is much easier to "hit the high spots." A concern may decide "to work" the retailers direct in the cities and larger towns, and leave the scattered dealers in the suburbs, villages and rural districts to the jobbers. This may be very desirable from the manufacturer's viewpoint, but



Urban and Rural Population in 1920

the jobbers may object to such an arrangement and refuse to purchase his products. A very large number of concerns, however, do use both methods, or "straddle." If the manufacturer sells to the retailers direct in certain territories, while in other territories he sells only to the jobbers, the latter will likely feel that they are protected. If, however, the manufacturer uses

both methods in the same territory, the jobbers may well complain that the manufacturer takes the cream and leaves them only the skim milk. The manufacturer following this policy cannot expect much coöperation from the jobbers. A very large number of concerns work only the better trade, and pass by the out-of-the-way dealers.

The concern with a product such as high-grade shoes, clothing, jewelry, hats, or furniture, which is only handled by the better dealers in the towns and cities, finds it easier to reach the retailers direct. There were, according to the 1920 census, only 2,788 places in the United States having populations of over 2,500 and 287 cities having populations of over 25,000; while there are several thousand towns and villages with populations of less than 2,500. In such lines as clothing, hats, and shoes, the principal business of the wholesalers is with the small rural dealers; and supplying "fill-in" orders to the larger dealers.

Warehousing and distribution.—The manufacturer of a bulky product, who tries to sell to the retailers over a large part of the country, has a big warehousing problem. Small goods such as jewelry, cutlery, drugs, gloves, and light hardware, may be delivered quickly and cheaply by express or parcel post. But in order to supply the retailers promptly with more bulky goods, stocks should be carried at convenient shipping points throughout the country. In order to reduce the transportation costs, it is desirable to ship carloads to points near the retailers, so that the less-than-carload freight rates will have to be paid only on short hauls. Jobbing centers have grown up largely as the result of favorable carload rates.

Branch houses.—The manufacturer who sells direct to retailers may secure his own branch houses, may rent space in public or private warehouses, or may employ others to act as his transfer agents and receive and ship goods on his orders. The meat packers have established their own branch houses. In 1918, the number of branch houses operated by the five largest packers were as follows: Armour & Company, 366; Swift & Company, 343; Morris & Company, 154; Wilson & Company, 117; and the Cudahy Packing Company, 113. The National Biscuit Company has 320 local branches.[2] The use of branch houses is common with the farm implement manu-

[2]Frederick, J. George: "Modern Salesmanagement," page 87.

facturers. In 1918, twenty-seven of the larger manufacturers in the United States had 282 branch houses, 444 transfer stocks or agents, and in addition sold to 140 jobbers. Sales organizations are generally maintained at the branch houses, while transfer stocks are simply stored at convenient points for delivery in less than car-lots to the surrounding dealers. For example, a certain dealer may be appointed transfer agent. He receives the goods in car-lots and, on order of the manufacturer, has them shipped to nearby retailers.

The manufacturer, who doesn't want to tie up his capital in branches and incur the expense of maintaining branch organizations, may arrange with warehouse companies or dealers to receive and store his goods and ship to retailers on his order.

Pooled cars.—Pooled cars may be used to eliminate the carrying of stocks scattered at various points and at the same time secure carload freight rates for the shippers or the receivers. Arrangements are made with certain persons, perhaps transfer companies or brokers at distributing points, to act as agents. A number of small shipments are packed and addressed as if to be shipped direct to the purchasers, but instead, are loaded into a car and consigned to the agent at the distributing point. The agent breaks up the car and has the goods delivered, or the bills of lading issued to the purchasers in surrounding towns. This method reduces freight charges. It may cause delay to many shipments, however, because of the distance betwen retailers and factory; or because orders are held until enough are accumulated to fill a car bound for a particular destination. It also may be impossible to ship certain orders in pooled cars, and therefore the saving is not realized on all shipments. Goods from several manufacturers to one dealer are also often shipped in one car.

Expense of warehousing services.—The manufacturer covering a large part of the country and selling to the retailers direct, may be able to supply the warehousing and quick delivery service; but he can do so only by incurring additional expense. This expense may be greater or less than the similar expense incurred by an independent wholesaler. A great many manufacturers cover only a small part of the country, generally that part nearest their plants. In such cases the concern may be able to supply its customers satisfactorily from its factory. Very few concerns attempt national distribution when first

started. If they grow, they cover more and more territory until some come to have really national distribution.

Extension of credit.—Perhaps it is easier to extend credit to the retailers than to solicit orders from them and supply them with the goods as needed. This follows from the fact that the manufacturers selling to the wholesalers often have to extend them a certain amount of credit. Nevertheless, the extension of credit to a large number of small retailers involves a great deal of work in gathering information, passing on applications, and collecting small accounts. It also means that credit must be extended or denied to many retailers, on the meager information obtained by salesmen on their regular calls, or contained in reports of the mercantile agencies; or that the expenses involved in gathering additional information be incurred. Many of the small retailers are not even listed in the directories. The maintenance of the larger credit departments and the larger risks assumed, add to the expense of selling to the retailers direct. The small or the rapidly growing concern may need all the capital it can raise for other purposes, and may have its resources very much strained by supplying credit to retailers. In many lines, cash sales are not yet practicable although the use of trade acceptances provides the seller with securities that may be discounted at the banks.

Limitations on the use of wholesalers.—One of the chief objections to sales to the wholesalers is that many of them are not in a position to push actively the sale of any one product. A wholesaler may handle anywhere from 1 to 80,000 items. Those handling several thousand items cannot push the sale of each article. Many jobbers are not anxious to handle goods for which a consumer demand does not exist. The manufacturer who has sold his goods to a large number of jobbers may find it still necessary to do missionary work among the retailers, or to carry on extensive advertising to create a demand among the consumers. The use of specialty salesmen to solicit orders from the retailers to be filled through the jobbers has been previously explained (see Chapter XIII).

Other concerns maintain traveling forces whose functions are to call upon the retailers to secure their good will, supply them with advertising matter, help them with window displays and give them advice as to the handling of goods, rather than to solicit orders.

Some concerns make a bid for the jobbers' active support by allowing them a large margin of profit, perhaps 25 or even 40 per cent. The jobber may be sold at half the retail price to the consumer. This will allow the jobber to make 28.6 per cent and the retailer 30 per cent on their respective selling prices. Some concerns give the jobbers' salesmen special inducements to push the sale of their goods. This practice is now considered unfair, and certainly should not be done without the knowledge and consent of the jobbers.

It may be asked why the jobbers are used, if it is still necessary for the manufacturer to go over their heads to stimulate sales. In the first place, it is much cheaper for the manufacturer to have his representatives call on the retailers infrequently, than to have his salesmen call on them regularly. In the second place, the jobbers still perform the function of warehousing the goods and supplying them to the retailers as needed. In the third place, the jobbers still extend credit to the retailers.

Disadvantages of selling to wholesalers.—Some disadvantages of selling to the jobbers are the following:

The manufacturer loses contact with the retail dealers unless he employs specialty salesmen.

The jobber may at any time discontinue any manufacturer's line to take over a competitive line, or to put out his own branded goods.

The jobber may refuse to carry out the manufacturer's policies or to resell at the suggested resale prices.

Types of manufacturers who should sell to retailers.—It is very hard to generalize as to just what types of manufacturers should sell to the jobbers and what types should sell to retailers. As a general rule, however, it appears that the following types may satisfactorily sell to the retailers: manufacturers of a full line or a large family of products; manufacturers of products that have to be actively pushed in order to attain a satisfactory distribution; manufacturers of style or other perishable goods that need to reach the retailers as quickly as possible; and manufacturers of large or valuable articles that are bought in large enough units to justify the salesmen's expenses. Bulky goods, such as coal, hay, lumber, brick, corn, cement, and steel, should be shipped direct to the retailers to save transportation and handling cost.

Procter and Gamble's change to the retailers.—The change in selling policy adopted by Procter and Gamble in the summer of 1920, by which the jobbers were almost entirely eliminated in the sale of their products, attracted considerable attention because of the widespread use of the firm's products. This firm's most widely distributed product is "Ivory" soap, which is handled by betwen 250,000 and 300,000 retailers. "Crisco," a cooking fat, is also very widely used, although not nearly so well known as "Ivory" soap and several less-known products. The firm had been selling direct to the retailers in New York for some time, and on July 1, 1920, extended this policy to the whole country, although it is understood that several jobbers in the more sparsely settled sections still handle their goods. Procter and Gamble's line is not a full one. It appears that they have had to create a rather extensive sales organization, and some claim that they are selling less of their products, especially of the less-known brands, than formerly. There is, however, such a strong consumer demand for "Ivory" soap that the retailers are practically forced to carry it regardless of where it must be purchased. In commenting on this point, Haney remarks: "In my judgment something like 75 per cent of the retail grocery dealers would prefer to deal with grocery jobbers, and this will always make a tendency to buy soap from jobbers rather than from any direct selling manufacturer."[3]

Exclusive agencies.—Manufacturers of "shopping" goods selling to the retailers direct, should give careful consideration to the wisdom of distributing their goods through dealers who are granted the exclusive rights of handling their products in their respective territories. Manufacturers selling through wholesalers also may find it desirable at times to grant exclusive agencies. Exclusive agencies are more often used with "shopping" lines—clothing, shoes, household furnishings, farm implements, automobiles, machinery, boxed candy, and so forth, although they may be used occasionally in the sale of "convenience" lines.

Such agencies secure greater coöperation from the dealers. The dealer who has an exclusive agency is likely to push the sale of the goods, to display them better and advertise them

[3]Haney, Lewis H., Director New York University Bureau of Research, writing in the *Journal of Commerce* of March 12, 1921.

more than he would if he did not have the exclusive agency. The willingness to grant exclusive agencies may enable the manufacturer to induce the best dealers to handle his goods and to carry complete lines. The reason for granting exclusive agencies is the belief that more business can be secured from the one good dealer in a town who pushes the sale of the goods than from several dealers, none of whom have any special interest in the goods.

Such agencies improve the service rendered to the customers, as the dealer has a special interest in keeping them satisfied. It enables the producer to have the resale price of his goods maintained, if he desires, as he can refuse to sell to the agent if the latter cuts prices. The exclusive agency plan allows the manufacturer to plan his business with greater assurance, as he is in a better position to estimate his future sales. It also enables the manufacturer to operate upon a much smaller investment.

The manufacturer selling to exclusive agencies needs fewer salesmen, spends less for bookkeeping, and assumes less credit risk than the manufacturer who tries to sell to all the retailers.

On the other hand, exclusive agencies limit the number of dealers handling a product, and so may limit sales. Especially is this likely to be true if the agencies are poorly placed or if the dealers are given too much territory. Too much territory can easily be granted in large cities. In such cities it may be hard to find a single dealer, even if he has several stores, who satisfactorily covers the entire city. In such cases the manufacturer should consider the wisdom of giving the different dealers exclusive rights only in the parts of the city where their stores are located.

The exclusive agency may limit the returns which a manufacturer secures from his advertising. It may prevent the dealers making reasonable price reductions. The agent may push competing lines and the producer may lose business because the agent carries a small or poorly assorted stock. Again, the manufacturer may secure poor agents. Not all are able to secure the best dealer in each town.

It is doubtful whether it is good policy for a manufacturer of convenience goods to grant exclusive agencies, except perhaps to chain stores, unless it is impossible otherwise to induce dealers to handle his goods.

Phonographs, pianos, farm machinery, furniture, shoes, men's clothing, women's dresses, washing machines, and automobiles are very frequently sold through exclusive agencies. Groceries, soap, underwear, hosiery, automobile accessories, sporting goods, tobacco, and toilet articles are seldom sold through exclusive agencies. The following qualities may lead to the adoption of exclusive agencies: newness; need for intensive sales effort; easy identification; need for service to the consumer; and style or exclusiveness.[4]

Exclusive agencies from dealer's viewpoint.—The dealer with an exclusive agency can take full advantage of the manufacturer's advertising. He can connect his own name with that of the manufacturer and get the advantage of both. The exclusive agency is valuable to the dealer if the goods are of high quality and have a good reputation.

It enables the dealer to secure the full advantage of local advertising. The exclusive agency often enables the dealer to increase the sale of other articles to people brought to his store for the advertised product. It enables the dealer to carry a better assorted stock, and perhaps gives him some buying advantages in favored terms or discounts. It enables him to concentrate his selling efforts, and frees him from competition with price-cutting dealers. A hardship is often suffered by a dealer who has an agency taken from him after he has spent time and energy building up a market for the goods. When the International Harvester Co. agreed with the Department of Justice to sell to only one dealer in a town, it was faced with the necessity of withdrawing agencies from dealers in towns where it had formerly allowed different dealers to handle different brands. Many dealers felt that this was a great hardship.

Legality of exclusive agencies.—It is legal for a seller to agree to sell to only one dealer in a given territory, but it appears to be illegal under the Clayton Act for a dealer to agree with a seller to handle no other competing products. The object of this provision was to keep the market open for all sellers. Section 3 of this Act contains the following:—"It shall be unlawful for any person engaged in commerce . . .

[4]On the subject of exclusive agencies see the report of the New York University Bureau of Business Research: "The Exclusive Agency," 1923. Also W. O'Neil, "Why Fewer Dealers Sell More Than Many," *System*, July, 1922.

to lease or make a sale . . . of goods . . . or fix a price . . . or dicount from, or rebate upon such price on condition . . . that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor . . . where the effect of such lease, (or) sale . . . may be to substantially lessen competition. . . . "

Selling Direct to Consumers

New products.—Most manufacturers of widely used merchandise prefer to dispose of their products through middlemen. Many of those that have gone direct to the consumers have done so because they failed to secure a satisfactory volume of sales through the middlemen. Manufacturers with new products that require demonstration and intensive selling efforts are likely to go direct to the consumers, for the reason that the dealers are unable to sell their products. Besides, if the manufacturer has to sell to the consumer, what is the reason for allowing the dealer a profit on the article? Many such articles are sold through the dealers after they have been brought into general use. In this class might be mentioned sewing machines, electric and gasoline irons, typewriters, kitchen cabinets, aluminum cooking utensils, and dozens of other artciles that are now regarded as standard merchandise. A similar class of products that is often sold direct consists of novelties or luxuries that people can do without and which many will buy only when urged to do so. In this class might be mentioned books, magazines, musical instruments, and enlarged portraits. The manufacturer of such products may find the public so indifferent to the value of his products, that he is forced to keep them before their eyes either through printed advertisements or so-called "agents." This follows from the fact that the demands upon the average man's purse are so great that he buys only those "extras" which are most strongly or frequently offered to him.

Goods unsuited to dealers.—Another class of products sold direct, consists of goods that cannot be carried on the dealer's shelves. In this class come such widely different products as fruit trees, life insurance, and heavy machinery. The only way that a dealer can handle such products is to act as an agent in soliciting orders.

Methods of selling to consumers direct.—The three com-

mon methods of selling to the consumer direct are: by mail advertising; by the use of specialty salesmen or canvassers: and by the establishment of retail stores. The two latter methods involve the use of salesmen so that the human effort required in distributing the product may not be lessened. Perhaps the manufacturer's retail stores should not be regarded as direct selling, as they duplicate the facilities of the independent or unit retail stores. The manufacturer, in effect, says to the retailers, "you do not carry out my policies," or "you do not push the sale of my product; therefore, I will establish my own stores." Some manufacturers establish one or two stores in order to come into contact with the consumers, feel out the demand, and work out methods for the use of the dealers handling their goods.[5] This, however, can scarcely be regarded as "direct-to-consumer selling."

Selling by mail has been discussed already in the chapter on mail-order houses (Chapter XVI), and need not be discussed again at this point. Selling direct to the consumers was also briefly discussed in Chapter VIII, but some of the manufacturer's problems are outlined in the following paragraphs.

Selling through specialty salesmen.—The concern that sells to the consumer through specialty salesmen, canvassers or "agents" has many problems in the hiring, training, and supervising of these salesmen as well as in the delivery of goods and the making of collections. We are speaking now of products of relatively small value, which are sold direct because of a lack of demand; and not of such products as heavy machinery or life insurance, which are unsuited to sale through the dealers. It is difficult to secure the best type of salesmen. Those obtained often are inexperienced or are "just working until something better turns up." Not that such salesmen cannot earn large commissions, but those that do are very often picked up by other organizations that can offer them better pay or easier work. The work is often hard and unpleasant because they are selling goods which most of the prospects do not want when the salesman calls. The reason for the "agent" coming into such disrepute is that so many unscrupulous salesmen have tried to browbeat the prospects into buying.

[5]Hayward and White: "Chain Stores."

Securing a trained salesforce. —To keep a large force of salesmen recruited and trained in even the rudiments of salesmanship and to keep them contented and enthusiastic, which is so necessary for successful selling, necessitates the employment of a large staff to write letters and visit the men in the field. Some concerns advertise for salesmen and appoint all applicants as "agents." The concern that does this has little regard for its reputation, for many such salesmen will misrepresent the firm's goods, either through ignorance or deliberate falsehood. Some concerns make a habit of recruiting salesmen from among college students who agree to work during the summer vacations. This may secure a high type of men but means that the concern has salesmen in the field only three months out of the year.

It is of course possible to secure a fairly permanent and fairly well-trained force of salesmen, but it is no easy matter. The employing and training of these men, the supervising of them in the field, the assigning of satisfactory territories to them, the adjusting of their small complaints, and the writing of "pep" letters to them involves considerable expense. These men must sometimes be sold to on credit. The goods generally have to be packed and shipped out in small lots, but no smaller than is necessary when the retailers are sold direct. In addition to all of this overhead expense, the salesmen must be allowed fairly large commissions, commonly from 25 to 75 per cent of the selling price. Perhaps the most common commissions are between 40 and 60 per cent of selling price (or 66 2-3 to 150 per cent of price to salesmen) although both lower and higher rates are known. From these facts it is apparent that selling to the consumers through specialty salesmen is not a cheap selling method. It may be more expensive than selling through the jobbers and retailers. The use of specialty salesmen to go to consumers to introduce new products which are regularly handled by retail dealers involves many of the same problems, but the expense is one for development or advertising and is not expected to be permanent.

Questions—Chapter XXVII

1. The Dominion Canning Co. packs a fancy grade of vegetables and fruit which have for years been sold under its own brands. Its

goods are handled by a large number of the better-class grocery stores through the Eastern part of the United States. The goods sell to the consumers at fancy prices, which fact tends to curtail the demand for them. The company employs specialty salesmen who call upon the retailers once a year to solicit orders which are filled through the wholesale grocers. The concern also has brokers, in all the large cities, who are paid commissions on all sales made in their territories. The wholesalers distribute and collect for the goods sold by the canners' salesmen and also forward additional orders from time to time. Information, however, indicates that the wholesalers make little attempt to sell these goods and really only forward the orders voluntarily given by the retailers. The brokers are used to dispose of any surplus product, especially standard-grade goods which are not pushed by the company's salesmen.

The company has a high cost of production as a result of its care in turning out a high-grade and varied product. This high cost of production, coupled with a high marketing expense, has reduced the company's profits to a very unsatisfactory level. The company could pack a smaller assortment of lower grade products and sell through the brokers to the jobbers very largely under the latter's brands. Lower prices would be received, but both production and marketing expenses would be lowered materially. The company, however, has spent years in introducing its brands and building up a reputation for its product and feels that its brands are too valuable to be given up. What should be done?

2. Outline the advantages and disadvantages of exclusive agencies to the manufacturers of shopping goods.

3. A young man has been importing jewelry and bric-a-brac from Japan and selling to the smaller retailers. Many of the larger retailers have their own buyers in Japan. He has been very successful and has become familiar with the sources of the goods in Japan and the details of handling the shipments. His business has been prosperous and has grown until he finds himself unable to properly look after both the importing and selling of the goods. He can sell to wholesalers at a greatly reduced rate of profit or he can employ salesmen to sell to the retailers, devoting most of his own time to importing the goods and only exercising a general supervision over the salesmen. What course should he pursue?

4. The Star Knitting Company produces a medium-priced line of cotton hosiery. A limited amount of advertising has been done and the product sold to the wholesalers. The company now finds it necessary to make a change of policy if its sales are to be increased. It considers going direct to the retailers. Another suggestion is to continue

to sell to the wholesalers, but to occasionally send special representatives to the retailers to stimulate their interest in the company's product. What policy do you recommend?

5. A talking machine manufacturer finds the market crowded and competition keen. He considers selling direct to the consumers, abolishing all retail agencies, and soliciting orders by mail or by appointing a large number of specialty salesmen to call on the consumers. What factors should be considered before deciding to take this step? Which method of direct selling would produce the best results? If he solicits mail orders, what classes of periodicals should he use for advertising? If he employs specialty salesmen what territory should he cover?

6. When an Eastern city "went dry" a local brewery took up the manufacture of ice cream. Because of the excellent quality of the cream, the sales were reported to be almost double the sales of the former product. The beer had been sold to wholesalers in carlots. The owner was an old man, and, according to reports, he was unable to adjust himself to the new marketing methods and sold the plant. Outline the methods necessary in the sale of ice cream. How do these differ from the methods used by this concern in selling beer?

7. Outline the problems faced by a manufacturer attempting to build up a national organization of specialty salesmen to sell his product direct to the housewives.

Chapter XXVIII

SELLING AND ADVERTISING

Selling

Methods of selling.—It was pointed out in Chapter II that selling was one of the important functions involved in the marketing process. The two chief methods of selling are by personal salesmanship and printed salesmanship, or advertising. In personal salesmanship people are employed in the solicitation of business and the negotiation of contracts for the sale of goods or services. In advertising, on the other hand, the appeal is impersonal and is made through printed words or pictures placed where prospective purchasers will be likely to see them.

Advantages and disadvantages of salesmen.—The chief advantages in the use of salesmen are these: they can search out prospective buyers; select the appeals especially adapted to them; help them in making their selections; give them advice; answer their questions and objections; assure them as to the points about which they are in doubt; show samples and demonstrate the use of the products; help indecisive buyers to make up their minds; and, last but not least, close the sales. An advertisement can be ignored or overlooked, but the salesman can insist on action—a purchase or a reason for not buying. The principal disadvantage in the use of salesmen is the expense involved. Labor is the most important item in both production and marketing and so should be economized wherever possible. A salesman can call on relatively few people so that the cost of a call is high.

Qualification for success in selling.—The question has often been discussed whether salesmen were born or made. There may be some so-called "natural born" salesmen but most salesmen are developed, any unusual success being the result of study and hard work. This does not mean that there are not certain inherited traits that especially qualify their possessors for success in selling. In brief the qualifications for success

in selling are: a knowledge of the product to be sold; a good personality; and a grasp of the technique of selling.

A knowledge of the product is fundamental. This is not a natural gift but knowledge and information acquired by study, work, and experience. The salesman should know all about his product, all its uses, and how it will be of value to the different buyers. He should also be familiar with competing products.

Personality consists of many traits or characteristics. The personal qualities which are especially important to a salesman are: self-confidence; enthusiasm; sincerity and a desire to be of service to others; tact and broad human sympathy; industry; aggressiveness; pleasing facial expression; pleasing voice and ability to control its tone; and neatness. It is difficult, of course, to find all of these qualities highly developed in any one individual. One or two of them highly developed may make a man a success even though he be weak in other respects. Most of these qualities can be developed, to some extent, at least, by the efforts of the individual.

By the technique of selling is meant the "art" or, as sometimes called, "the tricks of the trade." The salesman should be able to "size up" his prospects and determine the proper method of handling each one. He should know the various methods of pre-approach, approach, the psychological moment to make certain suggestions, and the different ways of closing. He should know how to handle his samples, fill out the necessary reports, and how to plan his work.

Selection of salesmen.—It is no easy matter to select men with selling ability, or capable of developing into good salesmen. Frequently, different sales executives will form entirely different opinions of the same applicant. Success in selling is largely dependent on character traits, such as industry, perserverance, self-confidence, tact, and enthusiasm which, as yet, we have no accurate way of measuring. The employer often forms his opinions from interviews with the applicants. The personality of the interviewer may then be as important as the personality of the interviewed. The applicant is likely to become nervous, and allowance should be made for this. Interviews are important, but it is well to have an applicant interviewed by two or more persons, or, if this is impractical, two or more times by the same person. Some concerns use tests or

examinations in the selection of men. The trouble with these tests is that they furnish a poor measure of the character traits. Salesmen of high intelligence are needed to handle some lines. Tests may be useful in selecting men for such lines. Many products, however, can be handled successfully by men of low intelligence. It is very hard to advise useful tests for the selection of men who will make good, selling such lines. Some sales managers try to measure the applicant's social ability by finding out how many organizations he belongs to, how many offices he holds, and so forth. This is done on the theory that a good "mixer" is likely to make a good salesman. In selecting college men, the sales departments may prefer those men who have been active in student movements, especially those active in the social side of college life.

Since success in selling depends to a large extent on self-confidence and sincerity, the applicant may be asked such questions as: "Why do you think you can make a success in selling this product?" "How much do you think you can earn with us?" "Why do you want to sell this line?" The answers to such questions will often give a good idea of the applicant's opinion of himself and perhaps also of his opinion of the product.

Some managers prefer men with experience while others prefer inexperienced men so that they can train them in their own methods. The more techincal the product the more important is experience. In a non-technical line, a salesman often reaches his maximum volume of sales in from three to five years. Selling is essentially a young man's job, especially where the samples carried are extensive, or where there is need for much hard traveling. Some managers choose salesmen from within the organization—from the offices, stockrooms, or shops—on the theory that such men know the companies' policies or products. Others prefer men with selling experience in non-competing lines; others like to take men from competing organizations; and still others select inexperienced men and give them the necessary training.

Training salesmen.—The object of training is threefold: to give the salesmen a knowledge of the product; to teach them the principles, methods, and psychology of selling; and to teach them the policies of the house. Some business men have claimed that salesmanship could not be taught. A mer-

chant once made this statement to a visitor and almost before the words were out of his mouth he went to one of his salesmen and pointed out to him mistakes in his method of handling a customer and then showed him a better way. In small organizations new men are often taught in just this way, by the personal supervision of the employers. If the employers are good teachers this method may be excellent, but if the employers do not know how to instruct their new employees, or if they are so busy that they neglect it, the method will produce poor results. Some concerns start men out with very little preliminary training and expect them to learn on the road. This is generally an expensive method as the number of failures is large. Many of the larger organizations have established training schools for the education of their salespeople. Some concerns send men through this course before directing them to the road. Other organizations first try their men out in the field and then call in the more successful ones for further training. Some concerns depend largely on sales manuals and conventions. Others train the men on the road by the use of coaches or supervisors, or by assigning them to work under senior salesmen. Where the training course is used, it often requires the students to work for a certain time in the factory. The length of such work varies from working a few weeks in each department to serving a full apprenticeship. In the case of a highly technical product, graduates of engineering schools may be employed, required to serve a year's apprenticeship, and then given an intensive course in the principles of salesmanship and the policies of the company. Where the product is not technical, or where it is felt that the salesman does not need to know all the details of its production, the new salesman may only be taken through the plants on inspection trips.

Many schools now aid in the training of salesmen. Many colleges and universities offer courses in the principles of salesmanship. These courses seem to be good as far as they go. Their limitation is that they cannot study any particular product, or the policies of any particular company. In some cases special courses may be developed to train salesmen to sell different products. Such a course, for example, is offered for life insurance salesmen by the Division of Life Insurance Salesmanship of the University of Pittsburgh. In such a course the

facts about the product, as well as the principles of selling, can be taught, as it is intended only for salesmen of a particular product.

The sales manager should give careful attention to the training of his young salesmen. He should select the method that will produce the best results and be most practical for his particular organization. The method will vary with the product to be sold, the type or class of buyers called upon, and the past education and training of the sales recruits. The manager selling to a few large buyers has a problem different in many respects from that confronting the manager who sells direct to the consumers in their homes.

Managing salesmen.—The managing of salesmen is not always an easy matter. Some of the best salesmen are temperamental. Salesmen are prone to become discouraged. They are calling on persons who do not want their goods, or who, if they do want them, often try to raise objections in the hope of obtaining price concessions. Traveling salesmen work away from the office and the personal supervision of their employers. They must, to some extent, adjust their time to the convenience of the buyers. It is very easy for them to loaf, to work too few hours a week, to skim their territories, and to blame high prices, or poor business conditions, for their lack of orders.

The sales manager's task is to keep up the morale of his salesmen, to keep them enthusiastic, and to keep them steadily at work. He should show them how to sell goods, give them new information about their product, suggest new selling points, help them to find new customers, and to see that they work their territories thoroughly. He should be well liked by his men so that they will do their best for him, and yet he should maintain strict discipline.

Some of the common methods used in managing men are: visits to them in the field, sales letters, house organs, sales meetings and conventions, sales contests, and methods of remuneration. Visits to the men in the field by district managers or supervisors, or by the sales manager himself where the organization is small enough to permit it, are helpful. Such visits may encourage the men. If the manager accompanies them in their work, he should be able to make valuable criticisms. He can bring them news of the successes of other men

and give them helpful advice and information. Sales letters are widely used. Some houses send each traveling salesman a letter every day. It is hard to keep these letters from becoming monotonous. The old "pep" letters served a purpose but fell into disrepute owing to the fact that salesmen refused to continually respond to the same stimulus. Some managers try to make the letters personal, instructive, and newsy. They pass on new stories, relate the successes of other salesmen, suggest new selling points, and pass on successful methods. The house organs attempt to do the same thing in an impersonal and more elaborate way.

Sales meetings may be held daily or weekly with a local organization. When the salesmen are scattered, sales conventions may be held annually or semi-annually. The object of these conventions is to instruct the men as to new products and methods, and to arouse their enthusiasm. The programs often consist of speeches by officials of the company, successful salesmen, and sometimes by outsiders; by trips through the plants; by inspection of specially prepared exhibits; and by social events. Various salesmen may be asked to make talks and lead discussions on specific sales problems. New products are generally explained to men at these conventions; and new samples, catalogues, and prices given to them. Sales contests are often used because the desire to win a competitive event furnishes a very strong incentive. Prizes are used for the same purpose.

Paying salesmen.—The financial reward is the most important method of stimulating salesmen. There are three different methods of paying them: salary, commission, and profit sharing. These methods may be combined in a great variety of ways to suit the needs of particular organizations.

The salary method probably is the most widely used. It is commonly used with retail salespeople. It is often used in the sale of equipment where the results do not depend entirely upon the efforts of the salesmen. It may also be used in paying men who travel the same territories regularly, for the reason that the volume of sales that can be reasonably expected is known. The straight salary gives the men an assured income and prevents their worrying about paying their domestic bills. It is also a simple method from an accounting standpoint. Its chief weakness is its failure to stimulate men to exert their

best efforts, for such efforts are not immediately rewarded. This objection can be partly overcome by frequently adjusting salaries to the volume of sales or profits secured by the individual salesmen. If, however, salaries are made to follow sales volume closely, the commission method might just as well be used.

The straight commission method has the advantage of supplying an immediate and strong incentive for the men to increase their sales. It is applicable under conditions where the salary method is impractical; for example, in new territories or with new products where no basis exists for the fixing of salaries, or where the men work without close supervision. With a commission system the good men get what they earn, and the poor men are not overpaid. It is often said that the best salesmen insist upon working on a commission basis. The commission system is also simple from an accounting standpoint. It, however, has several disadvantages. The men may skim their territories hunting for big orders, they are tempted to cut prices, they are more likely to overstock buyers than if working on a salary basis, they may work irregularly, and they are often hard to control.

Very often a combination of salary and commission is used satisfactorily. A common method is to pay a fixed salary and then in addition allow a commission on all sales over a fixed quota. If this method is properly administered, it may prove highly satisfactory, as it gives the men a guaranteed income and also furnishes them an incentive to increase their sales. If it is not properly adjusted it may prove disappointing. If the salesmen come to depend primarily upon their salaries, it fails to furnish the desired incentive just as the salary method often does. If, on the other hand, the salesmen come to look upon the commissions as the important part of their incomes, it has the disadvantages of the straight commission method.

Pure profit sharing is impractical as a method of paying salesmen, although it may be used as a kind of a bonus system at times. A method by which the salesmen are given a fixed percentage of the margin between the cost prices and the selling prices, however, is practical in many instances. This system may be desirable where the salesmen are given considerable authority in fixing selling prices, or where the profit on different items varies widely. Such a system prevents them

cutting too deeply on prices and forces them to concentrate on the high-profit items. The chief disadvantage of this system is that it is complicated. It is often hard to fix cost prices, which generally have to be more or less arbitrary, and its use involves a large amount of clerical labor in the keeping of records and in the figuring of the earnings of the different salesmen.

The expenses of traveling salesmen form an important item which often causes contention between the men and their employers. The methods of handling expenses vary all the way from having them borne entirely by the salesmen to having them borne entirely by the house. Many intermediate plans are used. The salesmen may be allowed a definite sum for expenses, or they may be allowed actual expenses up to a certain amount, or to a certain percentage of sales. A question often raised is how much a salesman should spend on entertainment? Commercial bribery is unethical, and probably illegal in interstate commerce, but there is room for entertainment that is legitimate. The purchasing agents are on record against accepting gifts from salesmen, but many buyers expect the salesmen to pass around cigars and pay the meal checks.

There is no one best way to pay salesmen under all conditions. The sales manager should select the method best suited to his product, his territory, and his sales force. It may be one of the methods just described or a variation of one or a combination of methods. Different efforts require different rewards. A method once successful may need to be changed later to get the men out of a rut. Calling on new prospects, doing "missionary" work in new territories, putting out advertising matter, collecting past due accounts, sending in credit reports, pushing the full line, or furnishing service to customers are things which salesmen are often expected to do. It may be that the system should pay for other things besides volume of sales or immediate profits.

Advertising

Advantages and disadvantages of advertising.—The chief advantage of advertising is its cheapness. An advertisement can be placed before many prospective buyers for the cost of having a salesman make a single call. Advertising can make

its appeal frequently while the calls of salesmen are generally relatively infrequent. Advertising also reaches prospects whom it would be difficult for salesmen to interview because they are not interested. Advertising may reach them through newspapers, the mail, or on the streets, and attract their attention and arouse their interest. Advertising is thus important in doing the preliminary work of selling. The principal disadvantages of advertising are: its lack of personal appeal and insistence, the ease with which it can be overlooked or ignored, its inability to answer questions or objections, and its weakness in closing sales.

Object of advertising.—Advertising is for the purpose of increasing sales. It may attempt to effect sales directly, to aid the salesmen and dealers in making sales, or to lessen sales resistence by creating goodwill for the products advertised. Much direct mail and some periodical advertising attempts to make sales by requesting the readers to forward their orders accompanied by the necessary money. A great deal of advertising, however, does not attempt to effect sales but only to win acceptance for the product. Thus when a customer asks for "tooth paste" the dealer may show him several brands, but he very likely chooses the one that he remembers seeing advertised. Advertising may produce few specific requests upon the retailers for the advertised brands, yet when the retailer displays or shows advertised goods, he finds that they sell very much more readily than non-advertised goods. For this reason many retailers hesitate to handle non-advertised goods, unless they are offered at very low prices. Advertising thus directly helps to sell to the retail dealers.

The value of having a well-known brand is well expressed by Hotchkiss and Franken.[1] "The value of being well known varies, of course, in different fields. In the case of some commodities only a small percentage of the public can ever become consumers. In other cases, the field is so highly competitive and purchases are made on such technical grounds

[1]Hotchkiss, George Burton; and Franken, Richard B.: "The Leadership of Advertised Brands." A study made for the New York University Bureau of Business Research. Prices is another factor that may limit the sales of the best-known products. For example, in this study Cadillac was found to be the second most familiar brand of automobile (coming after Ford) and yet it is not second in the number of cars sold. Again Rolls-Royce ranked much higher in familiarity than Studebaker.

that being well known is only a short step toward a sale and a great amount of selling work still remains to be done. Again it may be that the consumer's discrimination is not highly developed, or that this discrimination is not based upon manufacturers' names or brands but upon style, fit, retailer's service, or a multitude of considerations. Brand familiarity on the part of the public is, however, an extremely important asset to the manufacturer in the great majority of fields. In many of them practically every one discriminates between brands in making a purchase. The tendency to do this is far more common today than it was a few years ago. In many lines it has come to be regarded as the simplest and surest way to obtain standard quality and service."

Mediums.—The principal advertising mediums are periodicals; outdoor advertising, especially billboards; direct mail advertising, including catalogues; car cards; dealer helps; window and counter displays of merchandise; containers; and delivery vehicles. There are several mediums of minor importance, such as films, programs, theatre curtains, novelties, and handbills. Publicity in the form of lectures, articles, talks, and interviews is considered as advertising by some but is treated separately here.

The chief types of periodicals are magazines with national circulations, newspapers with more or less local circulations, and trade and professional papers reaching groups of people with special interests. Outdoor advertising may consist of billboards, painted signs, electric signs, roadside signs, mileposts, and so forth. Direct mail advertising may consist of letters, circulars, booklets, catalogues, samples, and so forth sent direct to prospects through the mail. This type of advertising is relied upon very largely by mail-order houses but is used extensively by other types of businesses such as stores, theatres, hotels, churches, and schools. Dealer helps often consist of window and counter display cards, or of folders to be distributed to the consumers. Many of these cards are expensively printed and add attractiveness to the stores. Window and counter displays are very important in attracting customers. Some retail stores depend almost entirely upon this form of advertising. Containers and vehicles are often utilized to carry the advertiser's message. In one study it was found that more consumers remembered seeing advertise-

ments of milk on delivery wagons than anywhere else, although newspaper space, and car and store cards had been used extensively.

Choice of mediums.—The advertiser should give careful attention to the selection of the medium or mediums especially adapted to his needs. If he wants to reach a specialized market, his best medium may be through the trade papers read by the particular group, and by direct mail advertising sent to names obtained from trade directories. If a concern sells railway equipment, the railway journals immediately suggest themselves. If a concern sells cream separators, farm tractors, metal working machinery, printing presses, butcher shop fixtures, or canning machinery the various trade papers would be the natural mediums. If, however, a product is used by several specialized groups it may be practicable to use magazines with general circulations. Trade papers may also be used by sellers of non-specialized products.

For concerns selling in limited territories, the newspapers covering those territories are the logical mediums. Some concerns like to advertise nationally for the sake of prestige, even though their sales organizations do not cover the entire country. Such advertising may, however, prove an expensive luxury. A neighborhood merchant often cannot afford to advertise in the local papers for the reason that their use involves too much waste circulation to readers located in other parts of the city. Such merchants have to use other methods. They may use window displays, handbills, theatres, novelties, direct mail matter, and so forth.

Concerns with national distribution may use national magazines or local periodicals in various parts of the country. They may also use trade papers as their specialized buyers are also general consumers. They frequently use both magazines and newspapers, the latter being used in local campaigns or by the local distributors, the expense being borne partly by the manufacturers. Automobiles furnish a good example of a product advertised extensively in all three classes of mediums.

Concerns selling by mail generally use direct mail advertising and catalogues, although periodical advertising is also used extensively, especially by the smaller concerns. Periodicals are often used to get prospects, direct mail matter being used as "follow-up" material. Advertising material may be

sent to lists obtained from directories—city, trade and telephone—or from companies in the business of supplying mailing lists. A special mailing list may be built up from inquiries and orders received. Names of people directly interested may be obtained from special sources. For example, a furniture store may send advertisements to newly married couples, obtaining their names from the record of marriage licenses; a seller of goods used by infants, may send material to the parents after obtaining their names from the records of birth registration; while a railroad may send advertising booklets to the names of college students just before commencement. Direct mail advertising is also used by stores, theatres, churches, and other organizations.

Billboards, electric signs, car cards, and such like may be used as parts of national campaigns or by local enterprises such as stores, and moving picture theatres.

Securing attention.—An advertisement may secure attention by its size, color, illustrations, movement, or repetition.[2] Large advertisements attract attention much more quickly than small ones. A two-page advertisement will be seen by more people than a one-page advertisement, but it is doubtful whether it will be seen by twice as many. Large type is used

[2]"The larger the space used, the greater the 'attention' value, other things being equal. But the increase in value is not proportionate to the increase in cost. A law of diminishing returns holds, whereby the attention value increases more slowly than the amount of space employed.

"Yellow expresses light, cheer, vivacity, pleasure. This is so because it looks nearest like the sun, the moon, artificial light . . . . This color brings the qualities of light and cheerfulness wherever it is used. . . .

"Red is the blood of human interest. It looks like fire. It is that which stirs human action, causes the blood to move more rapidly, thereby exciting to greater mental activity, arousing passion, expressing force, and kindling the feeling of warmth. . . . In its fullest brilliancy it is the strongest, the most irritating, and the most aggressive of all colors. . . .

"Blue is restraint. . . . It soothes, constrains, sometimes almost repels—because of its very nature. It is called the 'cold' color. . . .

"Green is light and coolness. Nothing is more agreeable than a light, cool place, particularly in summer. . . .

"Violet or purple is an equal union of fire, or coals of fire, and coolness, or ice. . . . This is the color which is used to express shadow. . . . It neutralizes cheer, dispels light, creates gloom, brings on the night.

"Pictures are a common language. The world over . . . pictures convey detailed facts of thought, action, and effect quite similar to all. . . . The first function of the illustration proper is to supplement, make stronger, clearer, or more attractive something which the copy fails to accomplish successfully."

—Quotations from Tipper, Hotchkiss, Hollingworth, and Parsons: "Advertising, its Principles and Practice."

for the same reason. Pictures present an image through the eye without the mental process involved in obtaining an image from printed words. Colors, especially bright colors, aid greatly in attracting attention. Movement is often used in electric signs. A thing frequently presented to us is likely to force itself into our consciousness. We also are inclined to believe statements that we hear or see repeatedly. Hence the logic of frequent repetition of advertisements. The advertiser must consider the advisability of using large advertisements infrequently compared with smaller advertisements more frequently. Is it better to use a full page once a month or a quarter of a page weekly? In starting a special campaign the advertisements should not be spaced regularly. Early in the campaign they should appear close together, while later on they can be issued at much longer intervals. This is due to the fact that we forget very rapidly at first and much more slowly later on. After the facts are fixed in the minds of the prospects the advertisements can be presented at much longer intervals.

Choice of appeals.—The advertiser wants to make the appeals most likely to produce results. Some of the strongest buying motives are: desire for profit, or acquisitiveness; desire to excel—pride, vanity, ambition, prestige; affection; imitation; education; caution; health; recreation; and desire for ownership or possession. Many detailed lists of desires or motives have been made. Starch[3] gives the following general motives in the approximate order of importance: appetite; love of offspring; health; sex attraction; parental affection; ambition; pleasure; bodily comfort; possession; approval of others; gregariousness; taste; personal appearance; safety; cleanliness; rest; home comfort; economy; curiosity; efficiency; competition; coöperation; respect for deity; sympathy; protection; domesticity; social distinction; devotion to others; hospitality; warmth; imitation; courtesy; play; managing others; coolness; fear; caution; physical activity; manipulation; construction; style; humor; amusement; shyness and teasing.

In the sale of equipment and machinery the profit appeal may be made by showing the durability of the product and its economy in operation. The manufacturer of an expensive

[3]Starch, Daniel: "Principles of Advertising," page 273.

automobile will emphasize the pride that comes from driving such a car. In selling a washing machine the recreation appeal may be made by showing how it will give the housewife more time for leisure or amusement. To the husband the affection appeal may be made by showing how it will safeguard his wife's health and give her more time for recreation. In selling insurance, safety devices, and safes the caution appeal is likely to predominate. Several appeals should be made, but the greatest emphasis should be placed on the one that is strongest in the minds of the consumers. A questionnaire to milk consumers showed that cleanliness, and food value were uppermost in their minds. Questionnaires from 20,000 automobile owners showed the relative strength of their desires when making purchases.[4]

1. Endurance	15.0	per	cent
2. Economy of operation	14.0	"	"
3. Price	9.5	"	"
4. Comfort	9.5	"	"
5. Appearance	8.0	"	"
6. Service facilities of manufacturer	7.5	"	"
7. Hill climbing power	7.0	per	cent
8. Flexibility	6.5	"	"
9. Endorsement of others	6.5	"	"
10. Specifications	6.0	"	"
11. Speed	5.5	"	"
12. Appointments	5.0	"	"
	100	"	"

Planning the campaign.—The actual planning of the campaign is important. "How much territory to cover?" "What mediums to use?" "What appeal to make?" The copy must be prepared for the various mediums. The number and size of the advertisements, the frequency of their appearance in the various mediums, and the use of illustrations and colors must be determined. The type of advertising must be selected. Shall it be suggestive or argumentative? The carrying out of the plans for a large campaign involves much work. Printed matter, cuts, and signs must be obtained and sent to the periodicals, to the men in the field, to the dealers, and into the mail on schedule time. The advertising agencies will take much of the work of placing advertisements and checking up the periodicals, to see that they appear properly, off the hands of the individual advertisers. These agencies are paid by the periodicals carrying the advertising. Many of them are prepared to give valuable advice and assistance to advertisers.

[4]Hall, S. Roland: "The Handbook of Sales Management," page 151, quoting from the National Automobile Chamber of Commerce.

It is highly desirable to know the results produced by advertising expenditures. Results according to the mediums and individual periodicals used, appeals made, and typography are valuable but often very difficult to obtain. If direct mail advertising, or keyed periodical advertisments soliciting responses by mail, are used it may be possible to measure results fairly accurately. In many other cases, however, it is very difficult to measure the sales obtained as a result of the advertising. About all that can be done in many instances is to compare the sales with the different kinds of advertising done, the amount done, or the appeals made. Thus different appeals may be made at different times and the sales watched to see which produces the best results Sales, however, may be affected by many other things. This method does not check the "pulling power" of different mediums unless different mediums are used at different times.

Cost of advertising.—Many advertising managers work under an appropriation determined in advance. The size of the appropriation may be determined arbitrarily, may be based on the sales of the past period, or based on the estimated volume of sales expected during the coming period. The latter method is favored by many authorities. The amount spent for advertising varies from nothing up to a quarter of the sales. For concerns that advertise extensively, it often ranges from 2 to 10 per cent of sales. The California Fruit Growers' Exchange, however, carries on national advertising for less than one per cent. Retail stores spend, on the average, from less than one-half of one per cent, in the case of grocers, to 4 or 5 per cent, in the case of city department stores. Mail-order houses spend even more; one authority gives their average advertising cost as over 7 per cent. New concerns, concerns trying to break into new markets, or concerns trying to increase the consumption of their products at the expense of competitors, will spend more than those who are well established in the market. Companies selling specialties will ordinarily spend more than concerns selling staples.

Who pays for advertising?—The question is often asked, "who bears the cost of advertising?" Many people feel that the consumer pays for all advertising, either in the form of higher prices or lower quality, and hence that non-advertised goods should be bought whenever possible. It is true that non-

advertised goods are often cheaper than similar, advertised goods; but the producers of advertised products emphatically declare that their products are of better quality than non-advertised, competing goods. Non-advertisers will not admit this. Many of them argue that the advertisers take the cost of advertising out of the quality. Without an accurate way of measuring quality, it is impossible to determine whether advertised goods cost the consumers more or less than non-advertised goods. Another view is that the consumers are little affected by advertising, for the reason, that if goods are not advertised the dealers demand a larger gross margin for handling them. In other words, the dealers take the money that otherwise would go for advertising.

The cost of advertising by all concerns earning a profit, of course, does come out of the consumer's dollar. This, however, does not necessarily mean that the consumers pay more for the product than they would if it were not advertised. The advocates of advertising usually argue that advertised products are cheaper than non-advertised products for the reason that advertising so increases sales that the production cost per unit is lowered. This argument is based on the assumption that the goods are produced under conditions of decreasing cost. When this is true, and when the advertising does succeed in substantially increasing sales, the prices to the consumers may be reduced as the result of advertising. The law of decreasing costs is said to apply in the production of many manufactured products. When goods are produced under constant costs, an increased output, as the result of advertising, will not lessen production costs. When goods are produced under conditions of increasing costs, the larger the output the higher is the cost per unit.

Marketing costs should be considered separately. There is not the same tendency for marketing costs to decrease with volume as there is with manufacturing costs. Our previous discussion led us to the conclusion that merchandising concerns, except within relatively narrow limits, are operated under constant costs. Large stores that try to increase their sales by drawing customers from a wide area may, however, operate under increasing costs, owing to the heavy expenses of attracting distant customers to their stores. What is the effect of advertising on marketing costs? The advocates of adver-

tising claim that it lowers marketing costs. This may be true for the reason that it substitutes printed salesmanship for personal salesmanship and so economizes on labor, the most expensive item in marketing costs. It is argued, for example, that advertised goods can be handled on narrower margins by the dealers than non-advertised goods. This is true for the reason that it takes less labor to sell advertised products. There is also less risk in handling advertised merchandise and, since such goods can ordinarily be turned over rapidly, the capital and storage costs are less. Some dealers, however, contend that their margins on advertised goods are less than the cost of handling them; that the public demands the advertised product so that they are forced to carry them; and that the manufacturers take advantage of the situation and allow them very small margins. The soundness of this argument is subject to question for the reason that the dealers may be comparing the margins on the advertised goods with the average expense of handling both advertised and non-advertised goods. A dealer's cost of handling nationally advertised goods is not directly connected with his cost of handling non-advertised goods. The handling of goods advertised by the manufacturer is a different matter from an attempt by the dealer to increase his volume of sales by advertising. Such advertising may perhaps reduce his percentage of expense until the increased volume forces him to carry a larger stock and secure additional space. This point is soon reached in the case of most stores; beyond this the effect of advertising on expenses is not clear.

It must be admitted that we do not have enough exact data on the quality and prices of advertised and non-advertised goods to enable us to draw very definite conclusions as to the incidence of advertising costs.[5]

Advertising v. publicity.—Some men claim that more can be accomplished in building up goodwill and getting people to talk about a product, by publicity than by advertising. Hence, they have given all items of general interest to the press, have encouraged their employees to write articles for the trade papers or magazines, and have availed themselves of opportunities to have their men speak to various organizations.

[5]For a fuller discussion of the incidence of advertising costs see Ivey: "Principles of Marketing," chs. 12 and 13.

Others have made it a policy of showing visitors through their plants. Such articles or speeches perhaps do not mention their products specifically, but the fact that the writer or speaker is with such and such a house gives it publicity. Some concerns prepare special news services for distribution or have experts to make studies of general interest. Press agents may be employed. Some people have credited one of our leading manufacturers with doing things that appeared unusual or peculiar for the sake of getting newspaper publicity and deriving the benefit therefrom.

Business concerns too secretive in the past.—In the past most of our business men have been too reticent. Many of them have taken the attitude that the public had no interest in, and no right to know anything about their business. It is not too much to say that the consumer has an interest in every product that he consumes. If he eats a beefsteak produced by Swift & Co., he has a right to know something about Swift & Co.'s business. The Chicago meat packers adopted the policy of telling the public something about their business while under Government investigation (1917-1919). This policy was commendable, but if it had been adopted 25 years earlier, the investigation very likely would never have been necessary. Business men have been in the habit of regarding too many matters as confidential. The author has had men take him into the back room, lock the door, bind him to absolute confidence and then tell him something that could be published in the local papers with no detrimental results.

The author can think of but four reasons why a concern should desire to keep information secret. First, because it has been guilty of some illegal or unfair practice; second, because its finances are in such a condition that its credit standing would be injured if the conditions became known; third, because its profits have been so large that it is afraid of inviting competition or of regulation; and fourth, because of some secret method or process that gives it an advantage over its competitors. The business concern that follows the old policy of secrecy is likely to be suspected of coming in one of the first three classes. Publicity should be sought and not shunned by business concerns, as it is a valuable asset and will go a long way toward gaining the goodwill of the buying public if properly used.

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Questions—Chapter XXVIII

1. A manufacturer of grocer's specialties sells through the wholesalers, but employs specialty salesmen to call upon the retailers to do "missionary work" and to solicit orders to be filled through the wholesalers. Two separate sets of salesman are employed.

How should each sales force be (a) recruited, (b) trained, (c) supervised (d) paid?

2. What qualities go to make up the kind of a personality that a salesman should have? To what extent and how can each of these be developed?

3. Set each of these qualities down on a sheet of paper and try to rate yourself in regard to each of them. After each quality, or trait, write your own rating of yourself—excellent, good, fair, poor, or very poor. If you rate yourself carefully, this should indicate the weak points in your personality and aid you in improving it.

4. Select advertisements from current periodicals using the following to attract attention: size, color and illustrations.

5. Select advertisements from current periodicals appealing to the following motives: pride, ambition, affection, caution, imitation, health and profit.

6. A manufacturer of tools, such as hand drills, vises, rachet screw drivers, hammers, hatchets, etc., asks your advice about advertising his products. What mediums should he use? What appeals should he make?

7. How can a neighborhood grocery store advertise?

8. What is meant by publicity? What is its value to business concerns? Is there any reason why a business concern should not publish its financial statements?

Chapter XXIX

THE CO-ORDINATION OF MARKETING POLICIES AND ACTIVITIES

There are many marketing policies that cannot be discussed in this book. Such topics as Salesmanship, Sales Management, Credits and Collections, and Advertising are often considered as separate subjects and may be studied as such. They can be only touched upon briefly in a volume of this nature. It is very important that all the selling policies and all activities concerning the marketing of a firm's product be properly coördinated. The work of all departments should be carefully adjusted so that friction will be avoided and duplication of work eliminated. All departments should work for a common aim—the success of the concern's policies and ideals. The purpose of this chapter is to outline some factors that will aid in the formulation of the various selling policies, and to point out ways in which these policies and the activities of the various departments should be combined.

Relation of selling and production.—Throughout most of the history of the world production has been a more important problem than marketing. During the last century, however, the mechanical inventions have so stimulated production that it has become very difficult in many instances for the manufacturers to sell the output of their factories at a profit. The quantity of goods produced has been limited by the quantity that it was possible to sell. It must not be inferred from this that there is an overproduction of goods. There are hundreds of millions of people in various parts of the world who consume very few manufactured goods, and there are millions in the United States who would consume more manufactured goods if they could afford to do so. The American manufacturer has an immediate interest in raising the standard of living of the masses, not only in the United States but throughout the world.

The manufacturers and farmers often have been in a posi-

tion to produce more goods than they were able to sell at a profit. For this reason, many persons have said that there is no longer a problem of production, that the only problem now is one of market distribution; in other words, anything that can be sold can be produced. Neither of these statements is literally true. There are still many problems of production especially in the field of human relations. Also, there are many things that could be sold easily, which so far have not been produced, for example, a satisfactory talking moving picture, or a device for economically cooling our homes in summer. Nevertheless, the difficulty of profitably disposing of the normal outfit of their plants has caused many manufacturers to place greater emphasis on selling than on production and to consider a good salesforce as the most valuable asset.

Relation of sales and production department.—Many salesmen and sales managers have taken the attitude that they should be allowed to specify the kind of goods to be produced. This often leads to friction with the production department. The latter feels that it can best decide what goods should be produced, and that it is the sales department's job to sell whatever goods are turned out by the factory. No general rule can be laid down as to whether the sales department should dictate to the production department what goods are to be produced, or whether the production department should dictate to the sales department what goods are to be sold. With staple articles, like nails or lumber, perhaps it is the duty of the sales department to take the plant's output and dispose of it to the best possible advantage. In the case of "style goods" on the other hand, it is the duty of the production department to produce the goods specified by the sales department. The important thing is that production and selling be properly coördinated. The two policies cannot be entirely separated. Goods should be produced that are desired by the consumers and that can be sold in competition with other products. The concern that can give the most for its money, that can produce an article which will give more service for the price than any other competing article, is the concern that is most likely to sell its entire output at a profit. A concern with an active sales department may be able to secure more business than another concern with a better product but

with a weak sales organization. Nevertheless, a high quality of product and a low price are the greatest assets in selling.

The sales department feels that it is in a better position to know what the consumers want and hence that its ideas of production should be followed. The danger of following the suggestions of the sales department too closely is that they may lead to a great diversification of styles, sizes, colors, and packages. America's industrial growth has been based very largely on standardization of product and large scale production. A great diversification of output greatly increases the cost of production. Henry Ford has been one of the leading exponents of standardization and quantity production. It is said that during the period of the rapid growth of his plants his salesmen would come to him and say that if this change or that change was made in the car so many thousands more could be sold. His reply is said to have been that the production of such special types of cars would prevent the production of a much larger number of standard cars. As long as the entire output of standard cars could be sold his policy was undoubtedly right. If, however, the plant was partly idle it might have been wise to have followed a different policy.

Formulation of production policies.—The object is to turn out the product, or products, best adapted to the demands of the consumers. Most concerns must produce those things for which there is a demand. Even a saw mill must cut its lumber in the sizes demanded by builders and manufacturers. Some methods of analyzing the market to determine the demand has been outlined in a previous chapter. Perhaps in most cases the sales department is in a better position to know the demand than the production department. They should realize quickly what attachments, designs, colors, or styles will meet with public approval. In case of disagreement between the two departments concerning the advisability of placing a new design or product on the market, the wise policy may be to produce a limited quantity of the proposed article, and try it out in a limited territory. If it meets with general approval there, its production may be increased. There are of course new products for which the demand must be created. If an article is invented which would satisfy a definite want, even though the public knows nothing about it, it is the work of the sales department to educate the public and sell the product.

The management should see that the production and selling departments coöperate properly. Ordinarily, the sales manager should know what ought to be produced. He, however, may be so lost in details that he fails to see the important principles that should determine the concern's selling policies. He may propose such a diversity of products that the cost of production is greatly increased. A family of products may be a very desirable thing from the standpoint of the salesmen. The production of a varied line, however, limits simplification and quantity production, and increases costs. The specialty manufacturer may be handicapped in marketing his product, but he may have such an advantage in production that his business yields larger profits on the investment than that of his full-line competitor. The determination of such fundamental policies is a matter for determination by the executive officers or owners of the concern.

Purchasing.—The importance of purchasing and some of the principles involved were discussed in chapter XIX. It should be remembered that purchasing is intimately related to production and selling. The purchasing department can not be operated independently of the other departments. In a manufacturing concern the production program may be based on the selling program, and the purchase of raw materials based on the production program. The purchasing agent, however, should be allowed considerable freedom in determining the quantities to be bought because of quantity prices and the price trends of particular commodities. This does not mean that the purchasing agent should formulate the production program, unless he is the best prepared man in the organization to do it, but that the purchasing, production, and selling departments should all work in harmony.

The buyer must have considerable latitude in the actual selection of merchandise, otherwise he is only a clerk. It is his job to know a great deal about the quality of the goods bought. If a man is buying crude rubber for a tire factory, cotton for a cotton mill, or wheat for a flour mill he should be an expert judge of the goods bought. When one man buys a wide variety of products—for example, equipment, office supplies, fuel, machinery and so forth—he cannot be an expert on each item purchased. In this case the question arises as to what authority he should have in the selection of goods?

Suppose a tool is to be bought for the shop, there are two or three competing products, but the foreman prefers a certain brand. The purchasing agent finds another brand is cheaper and apparently fully as good, if not better. Which brand should be bought? The purchasing agents themselves do not agree on this point. The foreman argues that the purchasing agent knows nothing about the tool, its uses, its durability, or the advantage of its design, and hence should buy the brand specified by him. The purchasing agent on his side may reply that his job is to know what to buy, that he has had the two tools tested, has obtained reports on their performance in other plants, and that the substitute tool is fully as good, if not better, than the one recommended by the foreman. When the purchasing agent has the facilities for tests and getting reports on actual performances, it would seem that he should be given a free hand and should buy those things that are actually best for the money. This, however, does not necessarily follow. If the foreman is given a tool he does not want he may complain about it, blame all delays on it, let it get out of repair, and then say, "I told you so." The determining factor perhaps should be the strength of the foreman's preferences. When the purchasing agent is not able to determine accurately the quality of the products, he should give great weight to the recommendations of the users of the products. The complaint is often made, and apparently with some justification, that purchasing agents put too much emphasis on price and attach too little importance to quality.

A point of frequent controversy between the purchasing department and other departments is whether salesmen should be allowed to interview the actual users of the goods. Some purchasing agents object to this, arguing that it tends to curtail their own authority, and that the salesmen take the time of persons hired for other work. Other purchasing agents, however, believe this procedure to be entirely proper. Salesmen for their part contend that the purchasing agent knows nothing about many products and cannot understand their uses and advantages. If the salesmen can see the actual users they can demonstrate their products and show their advantages. Suppose a salesman has a labor-saving device needed by the accounting department, which he demonstrates to the accountant, without the purchasing agent's permission. The

accountant recommends the purchase of the machine, but the purchasing agent may take offense, delay the purchase, argue that another machine is better, or that the accounting department does not need such a machine. Such situations could be prevented if a spirit of coöperation were maintained throughout all departments and also if a definite understanding of the procedure to be followed in such cases were clearly stated beforehand.

Formulation of advertising policies.—Some manufacturers do little or no advertising but depend on their salesmen, sales agents, or brokers to dispose of their outputs. This policy is very likely to be followed by small manufacturers or producers of staple raw materials used by other manufacturers. On the other hand, manufacturers of new products, or large producers of branded merchandise may advertise very extensively. Some concerns dispense entirely with salesmen and sell their product entirely by mail. Most organizations, however, make extensive use of salesmen, regardless of how much advertising they do. The reason for this is plain. There are four steps in making a sale; first, attracting attention; second, arousing interest; third, creating desire; and fourth, securing action. Advertising may attract attention, arouse interest, and create desire, but it is weak in securing action or in actually making the sale. How many of us have had a desire for goods which we never bought? We may even stop in a store to make the purchase, but perhaps we do not get waited on promptly and decide to wait until the next day. By the next day our desire has cooled and very often the purchase is never made. Many of us even cut advertisements out of papers thinking that we shall "stop in" the next time we pass the proper store, or that we shall write the letter tomorrow; and yet we never "stop in" nor write the letter, and the purchase is never made. A great many concerns use advertising as an aid to personal salesmanship either in preparing the ground for the salesman or in creating "consumer" demand. The salesman who can tell the dealer that he is selling an advertised and well-known product, for which the consumers will ask by name, has one of the strongest selling arguments. Again, a circular or advertisement cannot answer questions and most buyers like to ask questions before making important purchases.

Coördination of advertising and selling activities.—Instances have been reported of the advertising department using one line of argument, while the salesmen use an entirely different line and make no use of the advertising. Again, intensive sales efforts may be carried on in one territory while the advertising department is concentrating on another territory. The sales department and the advertising department should coöperate in the carrying out of uniform policies so that both the salesmen and the advertisements will produce the best results. The salesmen should be kept informed of the advertising being done so that they can make full use of it in their work.

Credit policies.—The credit policy of a concern may have a considerable influence on its sales. The advantages of cash sales to the seller have been previously commented upon. The extension of credit is necessary, however, in many cases. Sales in the rural districts have often been made on "very long time." During the past few years much has been said about the necessity of extending long credits on sales made in many foreign countries. The extension of credit requires more capital and involves expenses for the maintenance of a credit and collection department, for extra bookkeeping, and to cover losses from uncollectible accounts. Sales on credit are often necessary in meeting competition, and may greatly increase the volume of sales. The installment method has undoubtedly increased the sale of furniture. Long terms may induce the wavering merchant to purchase large quantities of goods. The extension of credit may be as important a factor in making sales as the price of the goods. Many dealers depend upon the credit extended to them by wholesalers or manufacturers for a large part of their capital. Without such credit many dealers would be forced out of business. This is especially true when credit must be extended to the consumers. When long credits have become established in a trade they are very hard to eliminate. Fifty years ago, when the Western States were being settled, most of the farmers there were without capital to pay for land or equipment. If they were to buy they had to do so on credit. Long credits became the rule in the sale of farm implements. After the farmers got their farms paid for and equipped, the credit terms were shortened. According to common report, however, it has

never been possible to sell farm implements on as short terms as automobiles, which were introduced after the farmers were able to pay more promptly. It has been estimated that over 75 per cent of the automobiles sold in the United States have come to be sold on a time-payment plan, but the maximum time allowed is usually one year.

Choosing the proper credit policy.—Some concerns have achieved success by selling only for cash, while others have been successful by extending very long credits. Most concerns follow an intermediate course. Some give only short credit but extend credit to almost everyone. This is practically the policy of many concerns selling meat or fruit to the retailers. Such goods are generally resold by the retailers before they have to be paid for, so that little capital is needed by the retailers. As the credit is for short periods and as the bills are paid frequently, an individual seldom owes a large sum. Other organizations may extend credit for long periods but exercise great care in passing on risks. Some sell on open account, others use trade acceptances, others require promissory notes, while still others may retain title to or a lien on the goods until paid for. Every business should give careful attention to the selection of its credit policy, so that the policy best suited to its needs can be adopted.

Work of the credit department.—It is the duty of the credit department to see that the credit policies are properly carried out. The object of the credit department is to approve as many sales as possible and at the same time reduce losses to a minimum. In investigating the standing of a purchaser there are several sources of information; reports of salesmen; reports of mercantile agencies; financial statements submitted by the buyer; reports obtained from other sellers as to their experience with the buyer; and reports from local banks, business men, or others located near the buyer. Many factors must be considered in passing on an application for credit. Not only should reports be analyzed, but the moral risk should be considered. Many dealers who have a very poor credit rating with the mercantile agencies, or who are not rated at all, may be very satisfactory customers. On the other hand, dishonest men may find a way to avoid their obligations in spite of careful examinations of the ordinary sources of credit information. The business history of an applicant is very

important to the credit man. The man who has had several or who has gone through more than one bankruptcy proceeding is likely to be looked upon with suspicion by the credit men. The ability of the credit man to read human nature is a very important asset.

Relation of sales and credit departments.—Friction between the sales and credit departments is all too common. The salesman who has worked hard to secure an order feels none too good when the credit department turns it down, especially if he is working on a commission basis. The salesman may feel that he is qualified to pass on the ability of the buyer to pay for the goods. This should be true and very often is. The salesman is in closer touch with the customers than anyone else in the organization, and is in a better position to know how they are succeeding. The trouble with many salesmen is that they are so anxious to secure orders, that they hesitate to make a thorough investigation of the buyer's financial condition for fear of arousing antagonism. Questions as to a buyer's finances must be asked very diplomatically, but the salesman should be qualified to do this. The salesmen should realize that it is not advisable to take an order which will not be paid for. He should know something about credits and how to judge the ability and character of his customers. In selling goods he should have a clear understanding with his customers as to when and how payments are to be made.

The credit department on its part should realize that no good risks should be rejected, and that the conduct of its affairs has a great deal to do with the success of a concern's selling policies. It should attempt to make friends for the business, to develop slow payers into desirable customers, and to build up goodwill and make "resales" while collecting accounts. When the sales department and credit department coöperate properly, each will be of great assistance to the other.

Finnacial policy.—The selling and credit policies of a concern are closely related to its financial policy. The sales department may believe that the extension of long credits would greatly stimulate sales; while the financial department may see that such long credits would be impossible without securing additional capital. In making its plans the financial

department should know what sales are being made, what sales are expected, and how much money will become due each month on accounts and notes receivable. The sales, credit and collection, and financial departments should coöperate. In periods of business depression, dealers or small manufacturers may need more and longer credit than at other times. The wholesaler or manufacturer who is financially able to extend such credit may be able to secure new customers, increase his goodwill, and strengthen his position in the market.

Financing marketing enterprises.—Business enterprises need two kinds of capital—first, permanent, or fixed capital, to provide land, buildings, machinery, and equipment; and second, working capital to provide for the purchase of goods for manufacture or sale, the paying of wages and other operating expenses, and the extension of credit to customers. The difference between producing and marketing enterprises is that the producing enterprise (farm, factory, mill, or mine) usually needs a relatively larger amount of fixed capital; while the marketing enterprise (store, coöperative organization, factory sales department, or brokerage concern) needs a relatively large amount of working capital. The capital required for marketing goods is needed to carry stocks of goods; to extend credit to the buyers; to pay the salaries of salesmen and other employees; to pay for advertising; and to pay miscellaneous operating expenses. A marketing enterprise ordinarily requires a certain amount of fixed capital for land, buildings, furniture, and fixtures. The amount of space and equipment required, however, is comparatively small as compared with the producing enterprise, and under the present economic organization the land and buildings frequently are rented and not owned by the marketing concern.

Merchant's use of capital.—The merchant has a larger proportion of his capital invested in stocks of goods, and hence is more affected by changes in prices of goods than is the manufacturer. He usually has a quicker stock turnover, and hence, can dispose of his goods more quickly when prices are falling. The factory must complete the manufacture of its raw materials and goods in process, and the farmer must grow his crops before either is in a position to place goods on the market. The shrewd merchant, on the other hand, places his goods on the bargain counter, so to speak, as soon as prices

are definitely downward. When prices are rising the manufacturer makes larger profits off his inventories than the merchant does. The merchant thus incurs a greater risk because of changing prices, but is in a better position to protect himself, owing to his quicker turnover, than is the manufacturer, whose turnover period may be several months, a year, or even longer.

Amount of working capital needed.—The amount of working capital needed depends primarily upon: the terms of purchase; the terms upon which goods are sold; the facilities with which the assets can be turned into cash in case of emergency; the nature of the business; the rate of stock turnover; and of course, the volume of business transacted.

Terms of purchase.—The terms of purchase vary in different industries and between different concerns in the same industry. Terms are based largely on past practice, but often are so framed as to allow the buyer to resell the goods before paying for them. For example, fresh meats are usually sold to retail butchers on a weekly basis, while cured meats are often sold on a 30-day basis. Electrical goods, hardware, and dry goods are often sold on terms of 2 per cent, 10 days, net 60 days. The traditional discounts on the sale of men's clothing were 6 per cent, 30 days, 5 per cent, 60 days, or net 4 months. Many manufacturers, however, give other terms. Automobiles and carload shipments of flour and meat are commonly shipped with a sight draft attached to the bill of lading.[1] Some classes of dealers, hardware jobbers for instance, take the cash discounts so regularly that the net terms are of little importance. Among other classes, such as the retail grocers, many do not take the discounts, so that the net terms are very important. Dealers in goods sold on cash or short terms, or who are forced to take the cash discounts to meet competitor's prices, need much more working capital than those dealers who can sell their goods before paying for them.

Terms of sale.—The terms upon which goods are sold have an important bearing on the amount of working capital required. The store selling for cash, needs much less capital than

[1]For terms of sale in various trades see Steiner, W. H.: "Mechanism of Commercial Credit," and series of articles in Federal Reserve Bulletin from December, 1919, to November, 1920.

the store selling for credit. When goods are sold on credit, the important thing is not the terms stated on the invoices or sales slip, but the time actually elapsing until the bills are paid. Many dealers sell on 30-day terms, but many customers do not pay for 60 or 90 days. If the terms are 30 days but the average credit period 45 days, then working capital must be provided accordingly.[2]

Facilities for cashing assets.—The facilities with which the assets can be turned into cash in case of emergency, influence

[2]Most wholesale grocers sell on terms of 1 or 2 per cent 10 days, net 30 days and yet the average credit period is over 30 days in most cases. Of 300 wholesale grocers reporting to the Harvard Bureau of Business Research for 1920, 51 per cent had outstanding accounts, on December 31, equal to more than 30 days' sales and 15 per cent showed accounts and notes receivable equal to over 45 days' sales. In 1921, out of 321 reporting grocers, 74 per cent had accounts and notes receivable on December 31, equal to over 30 days' sales, and one-third of them had notes receivable equal to over 45 days' sales. By way of comparison only 54 per cent of these 321 grocers had accounts and notes payable on December 31, 1921, equal to over one month's purchases, and but 34 per cent of them had "payables" equal to over 45 days' purchases. A study of the figures reported by the wholesale grocers for these two years, shows that they paid for the merchandise bought slightly quicker than they collected for the merchandise sold.

The retail dealers ordinarily have shorter credit periods than the wholesalers owing to the fact that a goodly percentage of their sales are made for cash. The following tables will show the promptness with which groups of department stores, druggists, and shoe dealers reporting to the Harvard Bureau collected and paid their accounts.

Credit Period on Sales for Groups and Retail Stores

Type of Stores	*Percentage of Stores With Receivables Equal to Sales of:*			
	Less than 15 days	*15 to 30 days*	*30 to 45 days*	*Over 45 days*
295 Department stores in 1921	18	29	30	23
348 Shoe stores in 1921	51	27	15	7
157 Drug stores in 1919	42	37	12	9

Credit Period on Purchases for Groups of Retail Stores

Type of Stores	*Percentage of Stores With Payables Equal to Purchases of:*			
	Less than 15 days	*15 to 30 days*	*30 to 45 days*	*Over 45 days*
295 Department stores in 1921	20	16	17	47
348 Shoe stores in 1921	22	12	13	53
132 Drug stores in 1919	Un. 30. da. 53	30 to 60 24	.. ..	Over 60 23

A study of these figures shows that the retailers collected for the goods sold much sooner than they paid for them. In other words, the sellers extended to them more than enough credit to carry their own customers.

It seems that as a general rule wholesalers extend more credit to the retailers than they receive from the manufacturers, and that the retailers receive more credit from the wholesalers than they extend to the consumers.

the amount of working capital required. If the assets can be sold for cash quickly and without serious loss, or if commercial discount companies can be used to realize on receivables, the concern can safely operate with less working capital than if the assets are of such a nature that a forced sale would result in serious loss.

Nature of the business.—Staple goods have a more ready market than style goods or novelties, and for this reason the dealer in staples needs less working capital to act as a margin of safety.

The rate of stock turnover.—The rate of stock turnover and its relation to purchasing and the use of capital was discussed in Chapter XIX. We will only remind the reader here that the faster the stock turns, other things being equal, the less working capital is required.

Volume of business.—Some people think of a business concern as being launched to do a certain volume of business. Considering the volume of expected sales and all other factors, the promoters estimate the amount of working capital needed, and then set out to procure this amount. Some concerns may be launched in this way, but many others start with a certain amount of capital, and do as large a volume of business as they can. In other words, sales may be the result and not the cause of the amount of capital.

Sources of capital.—Capital is obtained from the following sources: investment of the owners; borrowing for long terms on mortgages or by the issue of bonds; borrowing for short terms, usually 1 to 4 months, from the banks or friends; and credit extended by the sellers of goods either on open account or secured by written promises to pay.

The owners of an enterprise ordinarily should provide, from their own funds and from long-term loans, sufficient capital to cover the fixed investment and sufficient to leave a margin over to provide for a part of the working capital.

Short-term loans, generally obtained from commercial banks, directly or through note brokers, are used to supply a part of the working capital. Such funds generally are used to carry inventories, to extend credit to buyers, or to pay operating expenses during the turnover period. Ordinarily credit is extended to customers for from 30 to 120 days. As goods are sold usually within this period, bank loans are seldom made for

longer periods. The practice of renewing loans, however, is common, and some concerns depend upon bank loans regularly for a considerable part of their working capital.

As pointed out above, a goodly amount of working capital is supplied to many classes of dealers by the credit extended to them by the sellers of goods, manufacturers or wholesalers. The sellers often extend credit for a long enough period to enable the buyers to resell the goods. This may be a week, or one, two, or three months, or even longer, according to the rate of turnover. The dealer who buys on a credit period as long as his turnover period, and who sells for cash, needs very little working capital of his own. At times the credit period on purchases is longer than the turnover period. For example the greengrocer often receives credit for an average of ten days, and sells within 48 hours. One such dealer when asked what investment he had in the business replied, "Investment! What do I need with an investment? What would I do with it?" If, however, the dealer resells on credit he must ordinarily obtain from other sources all or most of the capital needed to carry these accounts.[3] A retail butcher catering to a high-class trade, buys his fresh meat on a week or ten days' credit which should amply cover his turnover period; but he probably extends at least 45 days' credit to his customers. It is evident that the butcher must supply from his own funds, or borrow from others, sufficient capital to carry 45 days' sales. This is equivalent to 12½ per cent of the annual sales, if sales are distributed evenly throughout the year. Seasonal variations must be considered. This is a very important matter to the dealers in the one-crop section of the country where credit is extended to the buyers for long periods.

Many manufacturers and wholesalers, to relieve the strain on their own finances involved in carrying the buyers for such long periods, offer liberal discounts for the payment of bills before they are due. The discount is often so important that the buyer is practically forced to take it if he expects to meet competitive prices and make a profit. The buyer who takes his cash discounts, or who deals in goods that are not sold on credit, must obtain from his own invesment or the banks, the

[3] Occasionally the manufacturers or wholesalers extend credit not only for the turnover period, but to cover all or a part of the period for which credit is extended to the consumers. This was formerly done by the farm implement manufacturers in selling to the retailers.

capital to carry his inventories. Bank loans are very commonly contracted to secure the money with which to discount bills.

Ratio of current assets to current liabilities.—Working capital is measured on the balance sheet by the difference between current assets (inventory, accounts receivable, notes receivable, cash, and so forth) and current liabilities (accounts payable, notes payable, and so forth). The business concern always should have current or quick assets much greater than current or quick liabilities. Credit men in the past have often said that the current assets should be double the current liabilities. This came to be known as the two-to-one ratio. The ratio required for soundness, however, varies both with the nature of the business and with the nature of the assets and liabilities. At times a ratio of 1.5 to 1 may be entirely satisfactory while with a different type of store and under different conditions the ratio should be at least 3 or 4 to 1. The reason for such a large margin is that assets are so often overstated and will shrink considerably in a forced liquidation, while liabilities come due at their face value with remarkable promptness.

The ratios of current assets to current liabilities for groups of stores reporting to the Harvard Bureau are shown below.

Ratio	*Types of stores*	*Dept. Stores 1921*	*Number of stores Retail Shoe Stores 1921*	*Retail Drug Stores 1919*	*Wholesale Grocers 1921*
Less than 1		53	3	2	1
1 to 1.9			59	13	68
2 to 2.9		69	68	17	76
3 to 3.9		43	33	10	45
4 to 4.9		23	23	15	30
5 to 5.9		26	14	8	16
6 and over		81	148	70	85
Number stores reporting		295	348	135	321

Conclusions on financing.—The proper financial policy has a great deal to do with the success of a business. Sufficient capital should be provided. If only a small amount is available, a small business should be started and the profits reinvested to provide additional capital for expansion. Proper attention should be given to fixed and working capital. Commercial banks and the sellers of goods should not be expected to supply

fixed capital. A mistake can be made by providing too much capital. An oversupply will mean its inefficient use with consequent low rate of return. It may also lead to overbuying, a slow rate of turnover, and unwise extension of credit. These may lead to losses and if continued, to eventual failure. The use of capital in purchasing goods and extending credit is very important. The proper selection of goods, the watching of inventories, the careful checking of discounts, the exercise of care in extending credit to buyers, and close attention to collections all make for an efficient use of capital.

Service policy.—Many manufacturers of mechanical products operate service departments to keep their products in successful operation. The sales of any product, in the long run, must depend on the service which the product gives in actual use. The service obtained from a mechanical product, whether it be a typewriter, a grain binder, or a tabulating machine, depends very largely upon how well it is cared for and kept in repair. It is, therefore, in the interest of the producer to see that his product is kept properly repaired. The work of the service employees is very important. They should be taught not only how to make repairs but how to instruct the buyers in the use of the product. What they say will have an important bearing on the customer's opinions of the product. They should be trained to carry out the firm's policies.

Broader aspects of services.—In a broader way service covers not only the making of repairs, the prompt delivery of goods, and the extension of needed credit, but the quality of the goods sold and their adaptability to the needs of the buyer. The highest type of salesmanship consists in selling "service." The salesman should know his goods and his customers' needs so thoroughly that he can help the customers select the proper merchandise and get the best use out of it. If he is selling to merchants, he should be able to help them make a profit on his goods, for instance by showing them how to display, advertise, and sell his product. He should be able to instruct them in efficient methods of merchandising and store operation. To illustrate, the ideal of the salesmen of direct-mail printing, is to sell, not printing, but a complete merchandising campaign that will bring profits to their customers and repeat orders to them. If necessary the salesman should make a market analysis for his customer. If the salesman is selling forms, he should

be able to show how defective forms can be improved and, if necessary, to suggest changes in the bookkeeping methods of his customers. The salesman who sells service sets a high standard for himself. If he attempts to give advice without being qualified to do so he brings himself into disrepute. To be able to give his customers advice, he must be a thorough student of their businesses and their problems. The salesman, however, who wins the respect and confidence of his customers, because of honest dealings and profitable advice given, is laying the broadest foundation for large sales for himself and his company.

Sales management.—The management of the sales department is an important matter and should not be left to a minor official. In many successful companies the sales manager is a vice-president, and occasionally the president personally supervises the sales department. The selection and training of salesmen, the choice of method for paying salesmen, the laying out of territories, the fixing of sales quotas, the supervising of sales conventions, the conduct of sales contests, the securing of cooperation from the dealers; and the planning and management of special campaigns are all matters of great importance. The development of loyalty, enthusiasm, industry, confidence, and satisfaction among the salesforce is essential to an efficient sales organization.

Intensive selling.—By intensive selling is meant the thorough working of the territory and the obtaining of the largest possible number of customers. It has previously been estimated that the specialty and general stores sell 75 per cent of the merchandise sold at retail in the United States. Eliminating the large city specialty stores, it is clear that considerably more than half of the retail business is done by the small city, suburban, and rural stores. The concern that desires to attain a national distribution cannot afford to overlook the small dealers. It is often impossible to secure a satisfactory volume of business without selling to the small dealers. So many manufacturers desire to sell to the large distributors that competition of their business is very keen. Some very well-known products may have an 85 or 90 per cent distribution, but the average is very low, many articles having scarcely a 20 per cent distribution even though sold and advertised nationally.[4]

[5]Frederick, J. George: "Modern Sales Management," page 81.

Energetic, persevering salesmanship and persistent advertising are the methods ordinarily employed to secure a high percentage of distribution. Many salesmen skim their territories. A salesmanager who had been preaching intensive selling to his men, took a census of the dealers in several districts to ascertain the percentage of distribution attained in different territories and by different salesmen. One district manager thought there were 600 dealers in his territory, whereas by actual count there were over 1,000. A salesman was called in one day and asked how many dealers were on his route and how many he was selling. He replied that he knew all about intensive selling—he thought there were 60 dealers on his route and that he was selling 50. By actual count there were 112 dealers on his route and he was selling only 28. The policy of his company is to have its salesmen call on all dealers regularly and keep calling until sales are made.

Special contests and advertising campaigns are often used. One chief aim in sales promotion is to secure the coöperation of the dealers in pushing the sale of the goods. When it is desired to stimulate sales or to introduce new products, a common method is to concentrate on one territory at a time. Liberal use often is made of local advertising and special salesmen. Stocks of goods should be available in the hands of the wholesalers or in warehouses to keep the retailers supplied. When the special campaign is completed in one city it may be launched in another, leaving the business in the first city to the regular salesmen.

The complete policy.—There should be genuine coöperation between all departments of a business organization so that it will operate like a carefully adjusted and well-oiled piece of machinery. The policies of the sales, production, and financial departments should be carefully adjusted and should all dovetail. The advertising, credit, and service departments should all help to carry out the broad selling policies of the organization and should work with the salesmanager and salesmen. The salesmanager and salesmen, on their part, should link up with the advertising, credit, and service departments. No system can be devised which alone will secure the ideal coöperation. Petty jealousies may defeat the most perfect system. As long as an organization is composed of men, the

human factor must be considered. To accomplish the best results all men in the organization should have confidence in the firm, in their chiefs, and in the product; respect for their fellows; satisfaction with their treatment; an incentive for improvement; and an interest in their work.

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Bliss, Jos. H.: "Financial and Operating Ratios in Management."

Lough, Wm. H.: "Business Finance."

McKinsey & Meech: Controlling the Finances of a Business."

Conyngton, Thos.: "Financing an Enterprise."

On Finance: Joint Congressional Commission of Agricultural Inquiry, 1922, Part II.

Questions—Chapter XXIX

1. Should the sales department dictate to the production department what should be produced? Why or why not? Discuss.

2. Should the advertising department be subordinate to the sales department; should the sales department be subordinate to the advertising department; or should the two departments be separate and of equal rank? Why? If you think they should be separate how can their work be coördinated?

3. What should be the relation of the credit and sales departments?

4. Hatfield & Jones are partners in a retail hardware store in a town with a population of 3,500. During 1922 they bought $50,000 worth of goods and had sales of $75,000. On December 31 their balance sheet was as follows:

Assets		*Liabilities*	
Land and building	$50,000	Accounts payable	$15,000
Furniture and fixtures	5,000	Notes payable	5,000
Inventory	25,000	Net worth	80,000
Accounts receivable	12,000		
Notes receivable	2,000		$95,000
Cash	1,000		
	$95,000		

(a) Compute the ratio of current assets to liabilities.

(b) As far as the balance sheet shows, is this concern a good credit risk from the standpoint of the jobber? Would your answer be the same if this concern handled millinery? Why?

(c) Does this concern have too much fixed capital? Why or why not?

5. George Williams & Co. conducts a general store in an Ohio village. During 1922 the company's purchases amounted to $40,000 and its sales to $50,000. Its balance sheet at the end of the year was as follows:

Assets		*Liabilities*	
Furniture and fixtures	$1,500	Accounts payable	$25,000
Accounts receivable	35,000	Notes payable	10,000
Notes receivable	5,000	Net worth	19,000
Inventory	12,000		
Cash	500		$54,000
	$54,000		

(a) Is this concern a good credit risk? Why or why not?

(b) Criticize its financial policy.

6. A company has been organized in the Southwest to produce grocers' specialties. It expects to sell to the retail grocers over a radius of 250 to 300 miles. It has cheap raw materials, low overhead expense and wages, together with efficient management; with such a low cost of production it can meet or undercut all competi-

tors' prices. The capital is, however, limited and it seems impossible to extend much credit to retailers. The prevailing terms in the district are 2 per cent discount for payment within 10 days and net 30 days. These terms, however, are not enforced by all sellers. Discounts are often taken twenty or thirty days after date of invoice, and payments at the net price are often accepted 60 or 90 days after date of sale. The company is considering methods of avoiding the necessity of keeping capital tied up in "accounts receivable." One suggestion is that 5 per cent be allowed for cash payments, and that all goods be shipped C. O. D. or "to order" with draft attached to bill of lading. Another suggestion is that all buyers be required to sign trade acceptances, which could then be discounted at the banks. What would each of these methods involve? Are they practicable? Could new brands be introduced under such terms? Which method appears to offer the greatest opportunity for success? Can you suggest a better method?

7. Salesmen for two large electric companies were both after the order for the installation of a good-sized dynamo and other electric equipment. Salesman for company *A* got the superintendent of the department which would use the equipment thoroughly "sold" on his product. Salesman for company *B* got the president and general manager, who controlled the placing of the order, thoroughly "sold" on the superiority of his product over that produced by company *A*. He got the president so thoroughly in favor of his product that he made the sale over the objection of the superintendent.

(a) Should the salesman have taken the order? Why or why not?

(b) Should the president have given the order to company *B*? Why or why not?

Chapter XXX

CAN THE COST OF MARKET DISTRIBUTION BE REDUCED?

In the first chapter it was shown that the cost (cost as used here refers to the spread between cost of production and price to consumer and includes both the expenses and profits of the middlemen) of marketing many commodities amounted to over 50 per cent of the total prices paid by the consumers. This high cost of market distribution is of great importance to both the consumer and the producers. It is of direct importance to the consumers, as it exerts a great influence on the cost of living. It is of importance to the producers as it decreases the demand for their products or lessens the price which they receive. If the cost of marketing many classes of merchandise could be reduced, the selling price could be lessened and the consumers would be able to buy more goods. This would mean increased sales for the producers and, as more goods would be consumed, it would mean a general increase in the standard of living. The increase in the amount of goods produced would afford employment for many people who might no longer be needed in commerce under improved marketing processes or methods. It is probable that in many instances cheaper marketing methods would mean higher prices for the producers.

In discussing the possibility of distributing goods more cheaply, the distinction between the expenses and profits of those engaged in marketing should be borne in mind. Swift and Company's figures quoted in Chapter I show that 50 per cent of the consumer's dollar goes for marketing expenses, 4 per cent for manufacturer's profits, and 9 per cent for the middlemen's profits. These figures are not to be taken as altogether accurate, but they will serve as a rough approximation and should be kept in mind constantly during the following discussion.

Reducing risk.—One of the causes of the high marketing costs is risk. It seems to account for a large part of the cost.

The fact that all kinds of goods are marketed, for example perishable goods, such as meats, vegetables, and flowers, and goods in uncertain demand, such as style goods and novelties, indicates the importance of risk. The owner of goods always has a risk from physical deterioration and falling prices. Prices may fall owing to an increased production or to a decreased demand. Demand may decrease owing to changes in style; to other competing products becoming cheaper; to a decrease in purchasing power; to other goods, rent for example, becoming higher; or to increasing preferences of buyers for other products, for example automobiles in place of pianos, or radios in place of jewelry. If goods pass through the hands of four middlemen, then risk must be borne four times. The quicker goods reach the consumers, other things being equal, the less risk is involved. There is less danger of price changes, style changes, and physical deterioration. One of the chief advantages of standardization and simplification is a reduction of risk. Standard goods have readier markets and more stable prices than unstandardized goods. Simplification means that producers and dealers have to carry fewer sizes, styles, and designs in stock. This reduces carrying charges. In order to reduce marketing costs, attention should be given to reducing the amount of risk involved.

Five classes of proposals.—Five classes of proposals have been made to lessen the expenses of market distributions: first, to decrease the number of middlemen; second, to shorten the trade channels; third, to organize coöperative marketing organizations; fourth to develop cheaper or more efficient methods; and fifth, to have public regulation. Several of the suggestions in the fourth class involve a lessening of service to the consumers.

1. Decreasing the Number of Middlemen

Are there too many middlemen?—This question has probably agitated the public in recent years as much as any other question relating to marketing. The number of middlemen may refer to the number within a given class, as the number of retail grocers; or it may refer to the number of middlemen through whose hands merchandise passes between the producer and the consumer.

In regard to the number of merchants in the various classes,

Nystrom[1] points out that the United States census shows that the total number of merchants has increased since 1850 faster than the population, but not as fast as the quantity of goods to be handled. The number of merchants per 1,000 inhabitants was 7.51 in 1850; 11.40 in 1890; and 13.26 in 1920. The decline of the production of goods within the home and the great increase in factory production, for example, bread and women's ready-to-wear clothing, has given the merchants more and more goods to handle. In 1850 there was one merchant to every $6,376 of manufactured goods, while in 1920 there was one merchant to every $44,877 of manufactured goods. After making due allowance for the changes in prices; for the export and import of manufactured goods; for the manufactured goods (for example, partly manufactured goods) not handled by the merchants and for the non-manufactured goods (farm products) handled by them, it appears that each dealer, on the average, handled a larger quantity of merchandise in 1920 than in 1850. In other words, while the number of merchants has increased more rapidly than the population, it has increased less rapidly than the quantity of goods handled. The localization of industry to secure the advantages of large-scale production, the growth of the city population, and the advance in the standard of living have increased the services which the merchants are called upon to perform. Customers not only order a greater variety of goods, but they buy in smaller quantities and demand more personal attention.

This comparison with 1850 is very helpful, but it is not conclusive as we do not know whether there were too many or too few merchants in 1850.

Fewer merchants very likely would mean larger profits for those remaining in business, but it is extremely difficult to say whether a great reduction in the number of merchants, taking the country as a whole, would benefit the consuming public or not. There are undoubtedly some localities that could be better served by fewer retail merchants. In the retail grocery business, for example, stores are so numerous in some localities that few of them are able to operate at a profit or to carry fresh and well-assorted stocks of goods. On the other hand, to decrease the number of stores would lessen competition and might allow the dealers to raise their prices.

[1] "The Economies of Retailing," ch. 19.

Expenses might be somewhat reduced if retailing were conducted by a few large and centrally located stores. The information at hand, however, indicates that low operating expenses depend more on the efficiency of operation than on the volume of business. The public liberally patronizes the small neighborhood stores, which indicates that these stores perform a real service in furnishing a convenient source of supply. It is difficult to see how these neighborhood stores could be abolished without inconvenience to the public, and so long as they are individually owned it is hard to see how their number can be regulated.[2] The growth of the large chains, each of which puts only one store in a neighborhood, however, does tend to limit the number of such small stores. The suggestion previously made that all applicants for dealers' licenses be required to pass an examination and meet certain other qualifications, if carried out might limit somewhat the number of dealers. It should also increase the efficiency of the dealers and this should tend to lower costs.

2. Shortening the Trade Channels

Number of dealers between producer and consumer.—When the public speaks of "too many middlemen" it generally has in mind the number of dealers who handle merchandise between the producer and the consumer. The public generally feels that merchandise passes through the hands of too many middlemen, and that the profits and expenses of these middlemen contribute in a large measure to the high prices. It believes that if the majority of these middlemen could be eliminated and merchandise be made to pass from the producer to the consumer direct or through a very few middlemen, that prices would be reduced materially. The consumers especially do not see that so many middlemen are necessary and regard them as unproductive parasites preying on the long-suffering and unorganized public.

A limitation of the number of middlemen handling an article between the producer and the consumer might be expected to

[2]One suggestion is that the Government should regulate the number of dealers. If this were done by arbitrarily allowing only certain persons to operate stores in certain localities there would be the opportunity for serious personal discriminations. If a heavy license or tax were used to reduce the number of dealers, it would be shifted to the consumers so that it is doubtful if they would obtain any benefit from lower prices.

result in a decrease in both expenses and profits. The distinction between the expenses and the profits of the middlemen must be borne in mind. If merchandise passes through the hands of four middlemen, each of whom takes a profit, it might reasonably be assumed that the total profits would be less, under competitive conditions, if the merchandise passed through the hands of one middleman. When it comes to expenses, however, the situation may be entirely different. The expenses of the one middleman might be less or they might be more than the combined expenses of the four middlemen. It is argued by some that economy in marketing, just as in production, may be obtained by splitting up the process into a number of successive steps so that the full advantage may be taken of specialization and the division of labor. According to this argument we should have a large number of highly specialized middlemen, who could distribute goods more cheaply than a few general and less specialized dealers. This might or might not be true. Sufficient information is not available to enable us to draw an accurate general conclusion. Those who have attempted to answer this question have generally based their conclusions on theoretical or abstract reasoning, or else have generalized from a few conditions or practices that have come to their attention.

Integration.—Vertical integration means a common ownership and operation of the various processes entering into the production and sale of goods. A completely integrated company would control all steps from the production of the raw materials to the placing of the finished products in the hands of the consumers. There are few completely integrated concerns. There are several, however, that are almost completely integrated, that control all steps from the production of raw materials to placing the finished goods in the hands of the retailers. Few manufacturers have tried to sell "consumption" goods direct to the consumers. Several of the large retail organizations have reached back and gained control of the production of some of their own goods. In few instances, however, have they gone back to the production of the raw materials.

There appear to be two advantages of integration: a reduction in marketing expenses, and the assurance of either a supply of raw materials or an outlet for the completed product.

Integration reduces marketing expenses by eliminating successive sales and purchases of a product on its way from raw material to the consumer's hands. Suppose that an iron ore mine; a coal mine and coke plant; a blast furnace and steel mill; and an automobile factory are independent but that the mines sell to the furnace and the steel mill sells steel to the automobile factory. In this case each mine must have a sales department to sell its ore and coke, the blast furnace must have a purchasing agent, part or full-time, to buy its ore and coke. The steel mill then needs a sales department, and the automobile manufacturer a purchasing department. Now if the mines, the furnace, the steel mill, and the automobile factory are all combined into one company, all of these selling departments and part of the work of the purchasing departments could be abolished.[3] The only sales department needed would be that of the automobile factory. The passing of the ore and coke from the mines to the furnace becomes simply a transfer from one department of a company to another. If the departments are separately incorporated, then arbitrary prices may be fixed and the proper bookkeeping entries made. Integration offers one of the most hopeful methods of reducing marketing costs.

Integration does not eliminate the element of risk. It may or may not reduce production costs. The lack of close personal supervision and the additional inter-departmental correspondence and other red tape tend to increase costs in large concerns. These may be more than offset, however, by economies in production.

Consolidations of similar concerns.—Consolidations or combinations of similar concerns, called by some horizontal integration, at times involves some saving in marketing expenses. Such consolidations are not always made for economies in production. In many cases the companies combined are large enough to secure the full advantage of large-scale production. This is shown by the fact that such consolidated companies generally continue to operate all the former plants. Occasionally a high-cost plant is closed and this tends to reduce the average cost of production. The advantages are principally in buying or selling goods. If a half-dozen paper mills are

[3]This is true if each department produces enough products to supply the next department and no surplus for sale to others. The saving in salaries of salesmen and purchasing agents, however, would be marked even if all departments were not perfectly coördinated.

consolidated, they need only one sales department and some of the salesmen may be dispensed with. The mills may also concentrate their purchasing in one department and it may need fewer men than the former six departments; although if the plants are large, each probably, will need a purchasing agent. Also, the greater purchasing power may enable the consolidated company to secure better prices or terms in buying goods. Some large companies demand lower prices than are given to any of their smaller competitors. The consolidated company may also be able to secure higher prices. For this reason, the public is generally very suspicious of such consolidations.

Consolidations of similar concerns may reduce marketing expenses somewhat, but they do not offer the opportunities for saving that are afforded by vertical integration.[4]

Large retail organizations.—The number of middlemen handling goods between the producers and the consumers has been decreased by the development of large retail organizations. Note the recent development of the chain stores. These stores not only take over the wholesale function, but as they become large, tend to enter the manufacturing field. Although they do away with the wholesaler, they do not eliminate the warehousing and delivery services formerly performed by the wholesaler. However, they do wipe out the expenses of the wholesaler's salesmen, and credit and collection department. It appears that competition with other chain stores forces them to pass a part of the saving along to the consumers. The mail-order houses eliminate from one to three middlemen. The large department stores generally do away with the wholesalers. The large mail-order houses and department stores also manufacture a part of their goods. But, as in the case of the chain stores, the expenses of the various wholesale dealers are not altogether abolished when their

[4]The Federal Trade Commission made a comparison of the cost of canning salmon by large and small companies during 1916 and 1917. The large companies had lower costs of raw materials—fish and containers—but the small companies had lower manufacturing costs. The lower cost of fish by the large companies was due to the fact that they had the best trap sites, while many of the smaller companies either had poorer sites or bought their fish. The lower cost of containers by the large companies was the result of their having manufactured their own cans or having obtained "quantity" discounts. These were advantages of integration, or marketing advantages in the purchase of raw materials. It is significant that in both years the small companies had lower costs of operation. See report on Canned Goods—Canned Salmon, pages 46-47.

functions are taken over by the mail-order houses and department stores. Neither is risk eliminated although it may be somewhat lessened by the quicker rate of turnover.

Manufacturers selling direct to retailers.—The trade channels are also shortened by the growth of larger units in the field of production. Large manufacturers can often sell to the retailers direct, while small manufacturers are often unable to do so without incurring very heavy selling expenses. Some small manufacturers may be unable even to maintain direct relations with the wholesalers, and must depend upon brokers or sales agents to market their product. The reason for this has been explained. This tendency for the manufacturers to sell the retailers direct has been a matter of comment for several years, and the quantity of merchandise marketed in this way has become very large. Nevertheless the wholesalers are far from being eliminated. Their importance was shown in Chapter XIII. Direct relations between the manufacturers and retailers eliminate the wholesaler's profits, but it is not clear whether the consumer benefits thereby or not.

Relative costs.—Some people assume that direct selling, as a matter of course, lessens the cost of the goods to the retailer. This may or may not be true. It may happen that a wholesaler handling many articles can sell a given product cheaper than the manufacturer maintaining a sales organization to sell only one product. Sufficient information is not available to enable a general statement to be made as to which method is the cheaper. This is an important matter; and it is to be hoped that some governmental agency (for no private agency is in a position to make such a study) will soon gather enough information to enable general conclusions to be drawn as to the conditions under which it is cheaper for the manufacturer to sell to the retailer direct than to sell through the wholesalers.

Some figures, however, showing average selling expenses of manufacturers marketing their products in different ways have been published. Several of these are presented in the following table.[5]

[5]Quite a number of the reports show the manufacturers' general administrative expenses combined with their selling expenses. The furniture manufacturers selling direct to the retailers had average general and selling expenses of 14.1 per cent of their selling prices during 1920 and 1921. This was equivalent to 9 per cent of the price paid by the consumers. The manufacturers of men's clothing selling direct to retailers, had average general and

Manufacturer of	Selling to	Manufacturer's selling expense: Period	P. C. of their selling prices	P. C. of price to consumers
Farm implements[6]	Retailers	Pre-War	15	....
Bread[7]	"	1913, 1916 & 1921	19.9	15.8
Flour[6]	Agents, brokers and jobbers	1912-1913	4.5	....
		1913-1914	4.9	....
Canned vegetables[6]	Sales agents and brokers	1916-1917	5	....
Canned salmon[6]	Brokers	1918	6.5	....
Butter (Centralizers)[6]	Wholesalers Jobbers Retailers	1914-1918	1.4 to 1.9	....
Canned milk[7]	Brokers and wholesalers	Recent Years	2.6	....
Rolled oats[7]	Wholesalers	1913, 1916, 1921	21.6	15
Corn flakes[7]	"	1913, 1916 & 1919	23.9	16.6
Macaroni[7]	Brokers and wholesalers	Recent years	12.9	....
Laundry soap[7]	"	" "	10.9	....
Peanut butter[7]	"	" "	13.5	....

The cost of selling farm implements is high because most of the manufacturers operate their own jobbing houses. A few sell to other manufacturers and to wholesale dealers. The expense of 15 per cent does not include losses from bad debts and collection expense. If these expenses were included and all manufacturers operated their own branch houses, the average selling expense would be somewhat higher. When these expenses are compared with the selling expenses of the flour millers, canners, and creameries it would seem that selling expenses were not reduced by operation of the wholesaling machinery by the manufacturers.

In the sale of rolled oats, corn flakes, macaroni, laundry soap, and peanut butter, the selling expenses are high because

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selling expenses of 21 per cent of their selling prices, and 14.4 per cent of the price to the consumers in 1913, 1920, and 1921 combined. Similar expenses for manufacturers of men's shoes in the same years were 14.1 per cent of their selling prices and 10.1 per cent of the price to the consumer. See report of Federal Trade Commission on Household Furniture, and Part IV of report of Joint Congressional Commission of Agricultural Inquiry.

[6]Report of Federal Trade Commission on "Causes of High Prices of Farm Implements," 1920; "Flour Milling and Jobbing," 1918; "Canned Food, Vegetables and Fruits," 1918; "Canned Foods," "Canned Salmon," 1919; "Milk and Milk Products," 1921.

[7]Report of Joint Commission of Agricultural Inquiry, Part IV.

of heavy expenditures for advertising and sales promotion work. In many cases more is spent for advertising than for all other selling expenses. Although the manufacturers of such products sell to the wholesalers direct or through brokers, many of them also employ specialty salesmen to call upon the retailers. This practice increases their selling expenses. Referring to the heavy advertising expenses by this type of manufacturer the Joint Congressional Commission of Agricultural Inquiry said: "[Manufacturers frequently determine] to capture a market through sheer weight of money or energy. [They endeavor] to create a demand for a product in a market that is already supplied with similar commodities. . . . In an extremely competitive market, which apparently is fully satisfied with existing brands, the effort is to secure a portion of the established market through a determined expenditure of money in advertising and selling. This leads to an increased expenditure on the part of other manufacturers to protect their established markets; distribution effort becomes simply an offensive and defensive display of extravagant spending."[8]

Owing to the difference in the products covered, the small number of industries represented, and the absence of uniform accounting methods, the reader should use great care in drawing conclusions from the figures in the above table. The figures, however, indicate that those manufacturers selling through brokers or sales agents, or direct to the wholesalers, without advertising extensively or employing specialty salesmen, have much lower selling expenses than the manufacturers selling to the retailers direct, or employing these methods.

Producers selling direct to consumers.—Much has been said in recent years about direct relations between producers and consumers. Four methods of direct selling may be mentioned: Manufacturers selling to the consumers by mail; manufacturers selling to the consumers through their retail stores or through specialty salesmen; farmers selling to the consumers upon city or public markets; and farmers selling to the consumers by parcel post.

Manufacturers selling by mail.—This method has already been discussed. It need only be pointed out here that such a

[8]Part IV of Report, page 149. An example is cited of a food manufacturer who, from 1917 to 1921 inclusive, had an annual average expenditure of 20.2 per cent for advertising.

method greatly increases the manufacturer's selling expenses. His expenses for advertising, correspondence, packing and shipping are especially large. It does not appear whether or not the manufacturer's expenses are increased to an amount equalling the expenses and profits of the displaced wholesalers and retailers. If the volume of sales is large, such direct selling would appear to involve a saving in expenses, but if the volume is small the percentages of expenses might be increased. The growth of this method indicates that there is some saving to the consumers but not enough to lead most of them to undergo the inconveniences in patronizing such manufacturers regularly.

Manufacturers selling to the consumers through their own stores.—Several manufacturers have established their own retail stores through which they supply their goods to the public. A few years ago such chains were regarded by some as furnishing a cheaper method of distributing goods. The operation of such stores, however, involves all of the problems of retail-store operation, except that of purchasing. As the manufacturers are specialists in production and have organizations designed to operate factories and not stores, they have apparently not been able to reduce the expenses of store operation. The savings possible with such stores are: the elimination of factory selling expenses, a part of the retailer's buying expenses, and the wholesaler's expenses and profits in case the class of merchandise in question ordinarily passes through the hands of a wholesaler. The manufacturers could also eliminate the retailer's profit if they so desired. Manufacturers as a rule are now very cautious in establishing such stores.

Large retail units, chain stores, mail-order houses and department stores often enter the manufacturing field. This practice establishes direct connections between producers and consumers.

Farmers' markets.—Much has been said in recent years about establishing, or reviving, the farmers' markets so that farm produce could be sold direct to the city consumers. Some cities have spent considerable sums to provide, or retain, such markets which are to be found in nearly all of our cities.

In the larger cities the farmers' markets are generally wholesale markets, the farmers selling only in relatively large lots—1 bushel or barrel. The buyers are principally dealers—whole-

salers, retailers, street vendors, and hucksters, although some consumers buy in large quantities to secure the lower prices. Taking the country as a whole, there are comparatively few city markets where the farmers are successfully selling large amounts of produce to the consumers. There are several reasons for this. The farmers often cannot afford the time. At the prevailing rate of wages the time required to sell goods in this way is quite an item. Thirty farmers selling on the public market in Seattle report average sales of slightly over $14 for an average day of nearly nine hours.[9] The sale of goods at wholesale requires less time, and the wholesale markets are often held in the early morning. The time necessary for the consumer to visit such markets often makes this method of purchasing impractical. Perishable foodstuffs must be bought in small quantities and few housewives, except those living nearby, can afford the time necessary to visit such markets regularly. The electric railways and automobiles have spread American cities over so much territory that a very small percentage of the population lives near such markets.

The statement is often made that the prices on the farmers' markets are little if any lower than those in the retail stores. The question here arises: do the farmers follow the prices of the retailers, or do the retailers follow the prices set in the farmers' markets? It is entirely possible that the prices in the retail stores are lower than they would be if the farmers' markets did not exist.

Direct sales by parcel post.—The Post Office Department has been active in promoting the shipments of foodstuffs to the cities by parcel post as a means of decreasing the cost of living to the city population, making a market for the farmers, and increasing the postal receipts. The price is supposed to be somewhat higher than the farmer could receive in his local market, and somewhat lower than the prevailing retail prices in the city. The practice, therefore, is supposed to benefit both producer and consumer. The farmer also finds an outlet for his goods, and is able to sell quantities too small to be sold in other ways. The consumer also gets fresher goods. This method of selling or buying has had some growth; and a considerable number of people are using it successfully. Nevertheless it is relatively unimportant and has so many disadvan-

[9] "Bulletin No. 2," State of Washington, Office of Farm Markets, page 10.

tages, or limitations, that it will probably never come into regular use by most people.

3. Coöperative Marketing Organization

Object.—Coöperative marketing organizations attempt primarily to secure the middlemen's profits for their members. These enterprises also generally attempt to eliminate certain middlemen or reduce selling expenses. The consumers' cooperative stores attempt to secure the retailers' profits for their members. Such stores also attempt to reduce operating expenses by securing a large volume of sales, renting a cheap location, and limiting the credit and delivery services rendered. The large volume of sales is supposed to be secured from the liberal patronage of all members.

Success.—Many coöperative stores have been started in the United States. Many have failed, but it is claimed that the failure rate is little if any higher than among privately owned stores. There are some 3,000 coöperative stores in the United States, most of which deal in groceries or general merchandise. These stores may be regarded as an established part of our merchandising machinery, although they sell less than two per cent of our total food supply. They ordinarily save their members from 3 to 6 per cent in the purchase of goods. It is impossible to predict their future growth.

The consumers' coöperative buying clubs attempt to eliminate the retailers' profits and also to reduce the expenses of retail distribution, by dispensing with, or performing for themselves, many services ordinarily performed by the retailers. The coöperative or company stores started by many manufacturers to help their employees reduce the cost of living, eliminate the retailers' profit and a part of their expenses. Some of the expenses have at times been absorbed by the companies. These stores not often also eliminate the wholesaler and buy direct from manufacturers or their sales agents.

The coöperative jobbing houses and retailers' buying clubs attempt to secure the wholesaler's profits for their members. They also eliminate certain of the wholesaler's expenses—notably a part of the selling expense. The buying clubs also eliminate a part of the warehousing expense. The central delivery systems, whether coöperative or not, help the retailers to reduce their delivery expenses.

Farmers' coöperative marketing organizations often eliminate one, two, or even three middlemen, and sell to the city wholesalers either through their own salesmen, brokers, or auctions. The profits of these middlemen are obtained by the farmers, but it does not appear what part of the expenses of such middlemen are eliminated. Such coöperative marketing organizations are apparently a step in the right direction, but it must be remembered that their purpose in eliminating middlemen and cutting down marketing expenses is primarily to get higher prices for themselves and not to reduce prices to the consumers.

4. Cheaper and more Efficient Methods

The methods already discussed in this chapter for decreasing the number of middlemen and for establishing coöperative marketing organization, often include improvements or economies in marketing methods.

Cheaper retail methods.—The cash-carry stores, the cafeterias, grocerterias, and self-serve stores of all kinds aim at reducing the expenses of retailing, but, unless coöperative, make no attempt to eliminate the retailer's profit. Such methods often mean that the customers perform for themselves services heretofore ordinarily performed by the dealers. The housewife who patronizes a cash-carry store, really secures for herself the money which the retailer would otherwise pay out for delivery expenses and interest on his outstanding accounts. The self-serve stores, however, seem to do a little more, for they may involve a considerable saving of time to the consumers. A buyer may secure her goods quicker in a self-serve store than in a store where she must wait to be "waited on" just as it is often possible to secure a meal quicker in a cafeteria than in a restaurant furnishing "table service." The use of such methods by chain stores buying direct from the manufacturers and operated efficiently, appears to offer the greatest opportunities of any system developed up to this time for reducing the costs of marketing the goods capable of being handled by them.

Elimination of over-the-counter sales.—The salaries of sales people constitute the largest single expense for most middlemen. The coöperative and mail-order jobbing houses attempt to limit the expenses of salesmen in the operation of whole-

sale concerns. The self-serve stores are based on the idea of reducing the number of employees. It was pointed out in a previous chapter (Chapter XVI) that the elimination of salespeople was one of the greatest advantages, or economies, of the mail-order houses. Other expenses of the mail-order houses, however, tend to offset or counterbalance this saving. The high expense of selling dry goods, women's clothing, shoes, and so forth, is due in no small degree to the "shopping" habits of the buyers. If a system could be evolved under which salespeople would have to show goods only to those who expect to buy, the expenses of selling many classes of merchandise could be reduced. In the case of style goods or new articles it is doubtful if this could be done without seriously limiting the services furnished to the customers.

Cherington[10] suggests that over-the-counter sales might be eliminated entirely in the sale of staple groceries. He suggests that such groceries be sold from warehouses having railroad connections and receiving orders only by telephone. This method would involve many economies. The warehouse could be placed in a cheap-rent location. The only salespeople needed would be those to take the telephone orders. No show windows would be needed, and no stock would need to be displayed. On the other hand, the expenses for delivery and bookkeeping would be relatively high. If a large volume of sales were secured, cheaper prices should be possible. There are, however, two limitations on such a method. First, it is difficult to get people to change their methods of buying. The advertising expenses would probably have to be high, at least until trade was secured and customers became accustomed to buying in this way. Second, such a method limits the opportunities of the retailers to introduce new products. Manufacturers desiring to market new products or to stimulate the sales of old ones might be forced to spend large sums on advertising or to adopt other methods of retail distribution.

Lessening service to consumers.—Many defenders of the present marketing system say that the high expense of marketing is all the fault of the consumers—that the large amount of service demanded is the chief cause of the high expenses. It must be admitted that delivery service, credit service, telephone service, exchange privileges, expensive store fixtures, plate-

[10] "Elements of Marketing," pages 196-198.

glass show windows, a wide assortment of goods, and sufficient salespeople to handle the sales at the busiest times add a great deal to marketing expenses. It is, however, an open question whether these services are really demanded by the consumers, or are the result of competition among the dealers, that is to say, a result of the competitive system.

Many of these services are of real benefit to consumers. Others are used for their psychological effect as a part of salesmanship. Delivery and telephone services are a real benefit to the housewife whose home duties prevent her going to the store. The unfair thing about this is that, under the present system used by many stores, the housewife who carries her own packages helps to pay the delivery expense of the housewife who stays at home. Mahogany and plate glass fixtures, on the other hand, are used for their psychological effect. It is hard to see how they are of any real benefit to the consumers. The shopping habit is expensive. If salesmen must show goods to three people in order to make one sale, selling expenses are bound to be high. If the buyers bought at the first store, only one-third as many salesmen would be needed in stores handling shopping lines, and expenses would be correspondingly reduced. Such a change would be accompanied by certain disadvantages. Shopping helps the buyers to get the most for their money, it tends to keep prices on a uniform level, it educates the consumers as to the quality of goods, and makes the consumers better satisfied with their purchases. When goods are standardized, shopping becomes less necessary. Attention should be given to eliminating unnecessary service. If the public recognized the difference between service and goods, many unnecessary services could be eliminated and others charged for separately.

Standardization.—Some of the advantages of standardization were mentioned in the second chapter. Standardization has many advantages. It gives the consumers an assurance of quality so that they buy more freely and spend less time in selecting goods. This enables the dealers to operate with fewer salesmen. Similar reductions in selling expenses should be realized by manufacturers and wholesalers. It lessens the need for advertising and enables the dealers to carry smaller stocks. It is debatable just how far standardization should be carried. Too much standardization prevents the buyer from

securing goods adapted to his individual needs. From an artistic standpoint also, too much standardization may be undesirable, especially in articles of personal adornment, household furnishings, and buildings. Standardization, however, offers one of the best methods of reducing marketing costs.

Should consumers buy in larger quantities?—Many of the suggestions for reducing the expenses of retailing involve larger individual purchases by the consumers. The small quantities in which consumers now purchase many goods undoubtedly increase the expenses of retailing. An order for 25 pounds of sugar can be taken as quickly as for one pound, and a case of canned goods can be sold as quickly as one can. Retail stores could certainly be operated more cheaply if their customers would buy in larger lots. Many suggestions for cheaper retail methods are based on the assumption that customers can be induced to buy in larger quantities. Part of the success of buying clubs depends upon the relatively large size of the individual orders. When customers buy in large quantities they assume the risk of spoilage otherwise borne by the middlemen. People living in apartments have little space to store large quantities of goods. Larger individual purchases, however, would reduce the expenses of retailing, lessen the need for neighborhood stores, and make possible the cheaper distribution of non-perishable goods.

Curb markets.—It was pointed out in a previous chapter that retail farmers' markets are only partly successful in most of our cities. There are, however, in many of our large cities one or more so-called "markets" occupied by dealers in perishable foods. These markets are often well patronized, but the prices appear to be little if any lower than those obtaining among outside dealers. Public officials and others interested in reducing the price of foods have frequently advocated the establishment of curb markets. They claim that the consumers can make large savings by patronizing such markets. If curb markets are well patronized, the large sales and rapid stock turnover may enable the dealers to sell at low prices. Competition must be keen, however, to keep prices down. If few customers come, few dealers will come, and prices may rise to the level prevailing elsewhere. Such prices will not attract customers and the market will fall into disuse. Perishable foods must be bought in small quantities, which means

that to be available to most housewives, such markets must be located in the various residential sections. In place of curb markets, some advocate the erection of buildings by the cities where a very nominal rent will be charged the dealers complying with all the regulations. Although prices may be somewhat lower in such markets, those that are now operating do not appear to have exerted any important influence on the average price of foodstuffs.

Elimination of wholesale warehousing function.—Another suggestion for reducing the cost of distributing goods is to eliminate the warehousing function of the wholesalers. This proposal does not necessarily involve the abolition of the wholesalers. They would give up their warehouses but continue to maintain their sales organizations. It would not be necessary for the manufacturers to send their salesmen to the retailers, but all goods would be shipped direct to the retailers. This method would reduce the expenses of the wholesalers, but would increase the expenses of transportation, because small lots would have to be shipped. It would also increase the warehousing and shipping expenses of the manufacturers, and would mean that the retailers would require more storage space and keep more money tied up in goods. This method is used by the drop-shippers described in Chapter XII, and its use might be extended to the sale of other "style" goods where it is desirable to get the goods as quickly as possible from manufacturer to retailer. The warehousing of goods and their distribution in small quantities to the separate retail stores is, however, almost a necessity with many classes of goods. The chain stores do not eliminate this function; and even if the wholesalers cease to perform it, it will not be eliminated but merely shifted to the manufacturers and retailers, and the total marketing expenses will probably not be lessened by such a shift. The suggestion to eliminate the wholesale warehousing function offers no opportunity for reducing the cost of distributing most classes of goods to the small retailers.

Central wholesale markets.—Another proposal is the establishment in the larger cities of central wholesale markets for the sale of foodstuffs. In some cities the food wholesalers are located in various parts of the city, often at considerable distances from railroad sidings. Such locations involve heavy expenses for transportation, and in case of perishable foods

also a certain amount of damage because of handling and exposure to heat and cold. Large terminals could be built providing floor space for all dealers and also adequate cold and dry storage facilities. Such markets should have connections with the railroads entering the city. Goods would be unloaded direct from the cars on to the space allotted the dealers. The basement and upper floors could be used for storage space. Auction rooms and offices for the brokers could also be provided on the upper floors. Such markets could be publicly or privately owned, but should be publicly regulated. Such regulation is necessary to secure fair dealing on the part of all occupants. An arrangement should also be made under which anyone could ship goods to the market manager or the supervising government official, who would have them sold by a commission merchant, broker, or auction and see that the proper return was made to the shipper.

The advantages of such markets would be: elimination of cartage costs from car to store and from store to car on goods shipped to out-of-town buyers; reduction of losses of foodstuffs from handling or exposure to heat and cold; reduction in amount of foods lost through lack of proper storage facilities; an equalization of prices because of adequate storage facilities; saving of buyer's time by having all dealers located close together; reduction in salesforce needed by the dealers who now sell all or a part of their goods from the cars; reduction in unfair trade practices; and, in some cases, reduction in number of middlemen, as under the proposed scheme the carlot receivers could sell direct to the retailers. It would be difficult, however, to find suitable locations for such markets in some cities; and the expense of providing adequate buildings and other facilities would be very heavy.

Such terminal markets should certainly reduce the marketing expenses, although all of the expected advantages might not be realized in actual practice.

5. Public Regulation

Public regulation of prices.—There has developed in recent years a more or less widespread demand for public regulation of prices, especially of the prices of foodstuffs. This suggestion was often heard during the War when prices were soaring and charges of "profiteering" were of daily occur-

rence. The advocates of such regulation argue that food, for example, is as much a necessity as gas, electricity or transportation; that the competitive system has failed to protect the consumers; hence, that the manufacturers and dealers in foodstuffs should be considered as public utilities and regulated accordingly. Under such a system of control the Government might regulate the number of manufacturers and dealers, outline the services to be performed and the records to be kept, and fix their prices, or prescribe their margins of profit. Such a system of regulation does not attempt to abolish private property or profits. Unless consolidations or monopolies were formed it is difficult to see how prices could be reduced, materially, for the reason that the regulating bodies would be forced to consider the expenses of the high-cost, or marginal, manufacturers and dealers in prescribing margins of profit or in fixing prices. Whether monopolistic organizations subject to public regulation would distribute foodstuffs more cheaply than is done under the present system is a debatable question and one that is too broad to be discussed in this chapter.

The government might go even further and regulate the production of goods; regulate the territorial distribution of goods; and provide better storage facilities. Such regulations would, however, hardly be practical under our present system of government.

Conclusions

Decreased costs may be obtained by increasing the efficiency of present methods or by introducing new methods. Some of the proposals for reducing marketing costs have been discussed, although it is impossible in our limited space to mention all of them. Many of the proposals are good but for the fact that they overlook the tenacity of buying habits and the difficulty of introducing new methods. The buying public is unorganized and so cannot agree to introduce new methods. Changes must be made slowly. We have discussed briefly some of the changes now taking place in marketing methods. The tendency to lessen the number of middlemen and establish direct connections between producers and retailers, or consumers, has been mentioned. Such connections have been made possible by the growth of large retail organizations, on the one side; and large manufacturing, or farmers' coöpera-

tive organizations, on the other. We, however, do not have enough information to enable a general statement to be made as to just how much marketing costs have been reduced by such connections.

Increased operating efficiency by middlemen, such as higher rates of stock turnover and coöperative delivery systems, may help to reduce marketing expenses. The self-serve and other "economy" methods make possible lower prices to the consumers, but often mean that the consumers perform certain services for themselves, which in the past generally have been performed by the retailers. Such methods when used by large retail organizations able to buy directly from the producers, offer opportunities for considerably reducing marketing costs. Integrated organizations which control successive steps in marketing, or in production and marketing, appear to offer opportunities for substantial reductions in marketing costs.

Coöperative marketing organizations are potentially important, but practically often failures. Coöperative selling organizations are often successful in increasing the seller's profits, while coöperative buying organizations up to this time have had too small a growth to reduce the level of prices to the consumers.

It is impossible to make a definite statement as to how much the changes now taking place will reduce the cost of marketing goods. It must be remembered that marketing methods are constantly changing. Some of these changes may involve a reduction in the cost of distributing merchandise, and others may not. But because some do not, we should not be led to believe that the efficiency of our marketing machinery cannot be increased. More study should be devoted to marketing. All members of society—producers, distributors, and consumers—should encourage those proposals or methods which promise to reduce the cost of marketing goods.

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Questions—Chapter XXX

1. What are the different classes of proposals that have been made for reducing the cost of marketing goods?

2. Which proposal do you think offers the greatest opportunity for reducing marketing costs? Why?

3. Are there too many middlemen? Why or why not?

4. Does direct selling from the manufacturer to the retailer benefit the consumer? Why or why not?

5. In what ways may the manufacturer sell direct to the consumer? Is the consumer benefited by any of these? If so, how? If not, why?

6. What is integration? How does integration help to reduce marketing expenses?

7. What is standardization? How does standardization make possible a reduction in marketing costs?

8. Outline what you would consider an ideal marketing system for the United States.

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